The challenges of designing and using reward systems in small professional service firms

- A case study of a small consulting firm

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ACKNOWLEDGEMENTS

This master thesis was submitted at Lund University, School of Economics and Management in May 2013. We would like to thank all the organizations and individuals involved who have greatly contributed to the creation of this paper. We would like to extend an especially warm thanks to the management as well as the employees of our main case XYZ, without your generous contribution, this study would not have been made possible.

Moreover, we would like to express our gratitude to our supervisor Per Magnus Andersson who has contributed with valuable feedback and guidance throughout this process.

Lund, 22th of May 2013

____________________________________  _______________________________________
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ABSTRACT

TITLE The challenges of designing and using reward systems in small professional service firms
- A case study of a small consulting firm

SEMINAR DATE 30th of May 2013

COURSE FEKN90. Master Thesis in Business Administration, Management Accounting, 30
University Credit Points (30 ECTS)

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FIVE KEY CONCEPTS Reward System, Small Firms, Professional Service Firms, Performance
Management, Motivation.

AIM The aim of this thesis is to create a model that can serve as a foundation for discussions of
how to design and use reward systems in small professional service firms. We will apply the
model on the case company and identify the specific challenges connected to reward systems in
these types of organizations.

METHODOLOGY We have applied a qualitative research method, which has aimed at gaining
an understanding concerning the topic through case study methodology. We have conducted
two case studies, one single and one multiple case study. The latter aim at identifying best
practices, which are brought forward to an analysis.

THEORETICAL PERSPECTIVE The study builds on previous research on reward systems,
small firms and professional service firms. This study aims to fill a research gap by combining
the three aspects.

EMPIRICAL FOUNDATIONS The empirical data has been collected through semi-structured
interviews with respondents and documents from main and reference cases.

CONCLUSION Small professional service firms have a lot to gain by allocating time and
resources into the design and usage of their reward system. If this is done successfully, the
organization can, with simple means, enhance the employee motivation – which can contribute
to a better business performance in a long-term perspective. A model, which can function as a
foundation for discussions of reward systems in small professional service firms is presented.
# TABLE OF CONTENTS

## 1 INTRODUCTION

1.1 REWARD SYSTEMS IN A MACRO PERSPECTIVE .................................................. 6
1.2 SMALL FIRMS ................................................................................................... 8
1.3 PROFESSIONAL SERVICE FIRMS ...................................................................... 8
1.4 MAIN CASE XYZ ............................................................................................... 10
1.5 AIM .................................................................................................................. 11
1.6 DISPOSITION ..................................................................................................... 11

## 2 METHOD

2.1 RESEARCH METHOD: AN OVERVIEW ............................................................. 12
2.2 EMPIRICAL RESEARCH STRATEGY ................................................................. 12
2.2.1 THE MAIN CASE ......................................................................................... 14
2.2.2 REFERENCE CASES .................................................................................... 16
2.2.3 QUALITY ASSURANCE OF EMPIRICAL DATA ............................................. 18
2.3 THEORETICAL RESEARCH STRATEGY ............................................................ 19
2.4 ANALYSIS STRATEGY ....................................................................................... 20

## 3 MAIN CASE

3.1 INTRODUCTION ............................................................................................... 21
3.2 CRITERIONS FOR REWARDS ........................................................................... 25
3.3 FORMS OF REWARDS ...................................................................................... 25
3.4 COMMUNICATION, FEEDBACK AND PERCEIVED FAIRNESS ....................... 26
3.5 SUMMARY ....................................................................................................... 27

## 4 THEORY

4.1 INTRODUCTION ............................................................................................... 28
4.2 REWARD SYSTEMS .......................................................................................... 29
4.2.1 PURPOSE OF REWARDS .............................................................................. 29
4.2.2 CRITERIONS FOR REWARDS ....................................................................... 34
4.2.3 FORMS OF REWARDS ................................................................................ 37
4.2.4 COMMUNICATION, FEEDBACK AND PERCEIVED FAIRNESS ................... 40
4.3 SMALL FIRMS ................................................................................................. 42
4.3.1 CHARACTERISTICS ..................................................................................... 42
4.3.2 REWARD SYSTEMS IN SMALL FIRMS ....................................................... 43
4.4 PROFESSIONAL SERVICE FIRMS

4.4.1 CHARACTERISTICS

4.4.2 REWARD SYSTEMS IN PSFs

4.5 SUMMARY

5 REFERENCE CASES

5.1 REFERENCE CASE AAA

5.1.1 INTRODUCTION

5.1.2 CRITERIONS FOR REWARDS

5.1.3 FORMS OF REWARDS

5.1.4 COMMUNICATION, FEEDBACK AND PERCEIVED FAIRNESS

5.2 REFERENCE CASE BBB

5.2.1 INTRODUCTION

5.2.2 CRITERIONS FOR REWARDS

5.2.3 FORMS OF REWARDS

5.2.4 COMMUNICATION, FEEDBACK AND PERCEIVED FAIRNESS

5.3 REFERENCE CASE CCC

5.3.1 INTRODUCTION

5.3.2 CRITERIONS FOR REWARDS

5.3.3 FORMS OF REWARDS

5.3.4 COMMUNICATION, FEEDBACK AND PERCEIVED FAIRNESS

5.4 INSIGHTS GAINED FROM REFERENCE CASES

5.4.1 THE IMPORTANCE OF GOAL SETTING

5.4.2 THE IMPORTANCE OF FEEDBACK

5.4.3 THE IMPORTANCE OF RECOGNITION

5.4.4 THE MOST IMPORTANT KPIS

5.4.5 THE CHARACTHER OF CONSULTING

6 ANALYSIS & MODEL CREATION

6.1 DISCUSSION MODEL FOR REWARD SYSTEMS IN SMALL PSFS

6.1.1 PROCESS MODEL

6.1.2 STRUCTURAL MODEL

7 APPLICATION OF MODEL

7.1 EVALUATION AND MAPPING

7.2 STRATEGIC DECISIONS

7.3 LEVEL OF COMPLEXITY

7.4 DESIGN

- THE CHALLENGES OF DESIGNING AND USING REWARD SYSTEMS IN SMALL PROFFESIONAL SERVICE FIRMS -
8 RESULTS & DISCUSSION

8.1 MODEL CREATION
8.2 APPLICATION OF DISCUSSION MODEL ON XYZ
8.3 CHALLENGES
  8.3.1 STRUCTURE VS AUTONOMY
  8.3.2 THE FINANCIAL CONSTRAINT
  8.3.3 EXPECTATIONS
  8.3.4 PREFERENCES OF EMPLOYEES
8.4 SUGGESTIONS FOR FUTURE RESEARCH
1 INTRODUCTION

In this chapter the choice of topic will be presented. Firstly, a discussion concerning reward systems on a macro level, which concludes the relevance of research on reward systems is presented. A presentation of the terms small firms and professional service firms follows. Thereafter a short introduction to the main case of this thesis and lastly our aim is presented in order to give the reader a good understanding of what to expect. Lastly, a disposition is presented.

1.1 REWARD SYSTEMS IN A MACRO PERSPECTIVE

Scholars argue that the design of reward systems is one of the most complex and sensitive areas faced by organizations (Arvidsson 2008). The existence and inherent challenges of reward systems is an ongoing and heated debate. Poorly designed or corrupted reward systems continuously attracts public attention through scandals concerning complex bonus systems and rewards given to employees, often without a direct linkage to a certain performance.

During the worldwide financial crisis in 2008 and the recession that followed, The American International Group (AIG) stated an example of how a reward systems can be misused, leading to heated public debates on the misusage of rewards. AIG created a worldwide controversy when it was revealed that the company had distributed large bonuses to its employees shortly after the US government had bailed out the company in order to avoid bankruptcy (Greider 2010).

One infamous case in Sweden concerns the insurance group Scandia, where highly questionable bonuses were given to employees. Between 1997 and 2002 Scandia distributed over 4 billion SEK among its top managers. The scandal received excessive coverage in media and resulted in legal actions against individuals within the company as well as companies involved in auditing the company (Berg 2008).

Even though the majority of companies which have gained attention from mass media are large financial organizations, such as the mentioned Scandia and AIG, organizations in all shapes and sizes use different types of rewards with the intention to motivate their employees to work aligned with the organizational strategy.

The usage of reward systems is based on the concept that an owner needs to delegate some or all, responsibility of managing and running the organization to other individuals, who assumable
have personal agendas and behave opportunistically. This is commonly referred to as the Agency Theory, a well-accepted organizational theory (Anthony & Govindarajan 2007).

The debate on reward systems consists of many different perspectives and opinions. The belief that “carrots and sticks” motivate employees has functioned as the foundation of the very existence of employee reward systems in organizations. However, this belief has been questioned among scholars. The critique of reward systems often highlights the lack of congruence between how individuals perform and the overall organizational performance (Pink 2009). Rewards actually risk leading to lower levels of motivation among employees, followed by lower performance (Kohn 1993; Pfeffer 1998 in Catasús, Gröjer, Höberg and Johrén 2008).

Despite such critique, reward systems are commonly believed to play an important part of management worth consideration, in manufacturing as well as service-focused organizations. Therefore the design of a fair and effective reward system may be a more relevant discussion than its mere existence.

In this thesis, we use the term reward and reward system based on the following definition;

The rewards individuals or a team receives when their behavior contributes to the organizational goals, provided that it is expected by them.

(Kaplan and Atkinson 1998 in Arvidsson 2004:135)

Having a good, attractive reward system could be argued to have gained importance as the new, globalized society, where companies act on one single market, has contributed to enhanced competition about the “right” employees, as reward systems are recognized to play a vital role in attracting and retaining employees (Arvidsson 2008).

The challenges of creating a suitable reward system are versatile, since there are almost infinite ways of designing a reward system. There are many different aspects to discuss and consider in terms of the design and usage of a reward system, some of them being how individuals should be rewarded, for what and how much, how a reward system can be designed to support long-term goals and how goal congruence can be assured the most efficient way.

In recent decades, service oriented organizations have constituted a growing part of the western economy, which has partly moved away from the traditional industrialized society (Alvesson
The shift towards the service society has come gradually and is yet on the rise (Alvesson 2004; Normann 2000), why it is of interest to investigate its role in the management of a modern organization. Further, looking at the European situation, more than 99 percent of all firms are considered small and medium enterprises (SMEs) (European Commission 2013) and they are on the rise. The European commission concludes that 85 percent of all new jobs created in European Union between 2002 and 2010 were created by SMEs. Hence, the challenge of designing a reward system for these types of companies is of great importance and in need of increased attention.

1.2 SMALL FIRMS
Although our aim is to look deeper into the specific situation of small firms, theory of SMEs will be used, as this is frequently the unit of analysis in previous research. Defined by the European Commission, SMEs are firms with less than 250 employees, a turnover below €50M or a balance sheet total of less than €43M (EU recommendation 2003/361).

Small firms are highly dependent on every single employee, why the need to attract, retain and motivate each one of them is important (Bacon, Ackers, Story & Coates 1998). Human resource (HR) practices, in which reward systems is a part, of small firms are commonly neither as formalized nor as financially strong as in larger corporations. This is often due to the liability of smallness (Stinchcomb 1965 in Cardon & Stevens 2004). However, the research within this field is very scarce. For example, Heneman and Tansky (2002) emphasize that simply applying HR practices, designed for large organizations on small firms may not be a good idea, based on empirical evidence. They point out the significant research gap within this field and the demand for specific models designed for small firms.

1.3 PROFESSIONAL SERVICE FIRMS
The new service oriented economy includes a wide spectrum of different types of organizations and services. Providing a service can consist of anything from executing a simple repetitive task, such as bookkeeping, to delivering complex, highly creative and customized services provided by highly educated individuals (Normann 2000). The latter type of services are provided by firms referred to as professional service firms (PSFs) (Løwendahl, Revang & Fosstenløkken 2001), which has gained a great deal of attention in research and in public discussion.
A high degree of information asymmetry, client interactions and customization of services are some characteristics of PSFs (Løwendahl 1997 in Løwendahl et al. 2001). The increased information asymmetry and need for every employee to represent the firm in a good way has placed new emphasis on the importance of creating goal congruence. PSFs further depend on the ability to attract and retain knowledgeable employees (Løwendahl et al. 2001), in which reward system can play a vital role (Arvidsson 2008).

An organization characterized as a PSF is highly dependent on the knowledge possessed by its employees. This knowledge can be transferred to become organizational through knowledge sharing. The dependence and possession of knowledge is often the most important competitive advantage in a PSF (Barney 1991; Barney & Wright 1998), which strengthens the belief that management of HR and knowledge is crucial for these types of organizations (Alvesson 1993; Starbuck 1992; Lado & Wilson 1994).

Combining the nature of both small firms and PSFs further strengthens the managerial need of handling matters of performance, knowledge, employee attraction and retention efficiently. We have found this to be a challenging and relatively unexplored field of management, which needs further attention. Further, as we researched the area of PSFs we could not find any distinct research on small PSFs, which we believe will enhance the significance of this study.
1.4 MAIN CASE XYZ

In October 2012 we established contact with XYZ, one of presumably numerous small PSFs struggling with the design and the usage of reward systems. During discussions with the management of XYZ, the idea of a collaborative process concerning these challenges was born.

XYZ is a small, London-based consulting firm. It consists of the Founder, four employees and a number of freelancing partners. It is in many ways an international firm; employees come from a variety of backgrounds and nationalities, and XYZ operates in more than 40 different countries around the globe. The business idea is built around a self-developed model and the clients consist of organizations within the food sector. XYZ was founded in 2008 and has had an interesting and eventful development since then.

When we met in October 2012, XYZ expressed the problem of creating a reward system that every member of the organization found beneficial; that would create incentives for the employees to work aligned with the organizational strategy.

As this project commenced, XYZ expresses the problem of finding a suitable way to launch their profit sharing model, which had been introduced in 2012. Our interpretation of XYZ problem was that they needed to find a good balance between financial and non-financial rewards and to consider the usage of suitable key performance indicators (KPIs). A strong aversion against complex, detailed systems could be identified, and they found it difficult to reach consensus on which solution that was appropriate. XYZ expressed the need for a simplistic, modern way to handle rewards in a modern global company. During the process of this study, XYZ has been in a stage of implementing managerial and organizational change, which aims to result in, among many other results, a suitable reward system for the organization.

The complexity and versatility surrounding the design and usage of reward systems are intriguing, and, relatively well researched – looking to large corporations. The usage of reward systems is, however, not limited to such corporations, but a part of all organizations. As the majority of firms are small, and service firms, where PSFs are a part, are a growing part of society, research specifically focused towards them has increasing relevance. Scholars have already pointed to the importance of not simply applying practices designed for large corporations, but to customize the practices after the specific needs of small firms. XYZ captured our curiosity, as it is an organization that clearly illustrates the challenges facing a small PSF
when designing and implementing a suitable, fair and efficient reward system; based on previous knowledge of reward systems – which has been tailored for large corporations. In collaboration with XYZ we wish to investigate how these challenges can be tackled, which can contribute with knowledge regarding reward systems in small PSFs generally.

1.5 AIM
The aim of this thesis is to create a model that can serve as a foundation for discussions of how to design and use reward systems in small professional service firms. We will apply the model on the case company and identify the specific challenges connected to reward systems in these types of organizations.

1.6 DISPOSITION
INTRODUCTION Relevance of research area is presented and the aim formulated.

METHOD The case study research method for our empirical studies and the research strategy for the theoretical study are presented.

THE MAIN CASE XYZ Findings from the empirical data collection are presented.

THEORY The first part of the theory chapter covers theories relevant when discussing reward systems. Thereafter a presentation of the characteristics and special implications on reward systems of small firms and PSFs are given. The three parts create the foundation for analysis.

REFERENCE CASES Reference cases are presented and best practices are identified.

ANALYSIS Best practices and theory is analyzed, presented in a model.

APPLIED TO XYZ The model is applied to XYZ, discussing their specific needs.

RESULTS & DISCUSSION The model is presented followed by the identified challenges. The chapter is rounded off by suggestions for future research.
2 METHOD

This chapter presents our choice of method. It starts off with an overview of the choice of method followed by a more in depth discussion concerning the method in the collection of empirical and theoretical data. Lastly, a discussion concerning the logic of analysis is presented.

2.1 RESEARCH METHOD: AN OVERVIEW

To create a model that can serve as a foundation for discussion of how to design and use reward systems in small PSFs, both primary data and secondary data will be necessary. The model will build on insights gained from recognizing best practices in other companies and theories in previous research. It will finally be applied to XYZ to provide them with new ideas regarding the design of their reward system. To allow for a better overview for the reader, the studied cases will be divided in two groups, the main case and the reference cases.

![Figure 1. Logic of Study.](image)

2.2 EMPIRICAL RESEARCH STRATEGY

In the choice of research method it is crucial to consider the character of the issue to be investigated and the question formulated to do so (Merriam 1988:46). The case study research method has a severe advantage over other strategies when

a “how” or “why” question is being asked about a contemporary set of events, over which the researcher has little or no control. (Yin 2003:9)

As the goal of this study is to create a model that can serve as a foundation for discussion of how to design and use reward systems in small PSFs, the case study research method is well suited. As with most qualitative case study research, the research question at hand arose from praxis (McMillan & Schumacher 1984 in Merrian 1988), where XYZ was in a situation where they
wanted to create a new and suitable reward system. A qualitative approach allows for a flexible process, where the direction of research can change course depending on what findings are done.

We will undertake an explorative case study as we aim at creating a model and then testing it by applying it to the main case. As we have not found previous research within this specific field of research, we believe that an explorative approach can strengthen the current knowledge state (Bryman & Bell 2007).

Our aim is to understand the greater picture rather than, as in quantitative research, breaking it down to components. As the case study is preferable in situations of high social complexity, it is well-suited for this study (Merriam 1988). We will apply a hermeneutic approach (Bryman & Bell 2007) with an aim of understanding the behavior of individuals rather than attempting to explain them.

According to Svensson and Wilhelmsson (1988) reward systems have to be designed specifically for each organization. It is important to get a complete view of current systems and the internal organization of the company for which the reward system will be created. This is the reason why we believe a case study is well-suited for the aim of this study.

In the choice of research method, the benefits shall outweigh the limitations, which we believe the method accomplish in this case. However, the richness of detailed information, which is one of the key arguments for the case study method, also constitutes one of its greatest cons. It risks resulting in unreadable, overwhelming papers (Yin 2003). We have tried to handle this limitation through structuring all four cases, main and reference, in an equal manner to increase the readability.

The case study has become increasingly popular and relied upon within management accounting research. As management accounting is closely connected to social science, the case study method is highly appropriate to understand the very nature of management practices (Ryan, Scapens & Theobald 2002; Merriam 1988; Yin 2003). Despite gained popularity case studies are often argued to have little possibilities for scientific generalization (Yin 2003). Others argue that
even a single case study can contribute to generalization, as it can be tested through replications or other case studies (Hartley 2004).

2.2.1 THE MAIN CASE

It is argued that employee participation in the design phase is beneficial in order to create a successful and accepted reward system (Thompson & Streckland 1992 in Arvidsson 2005). With this in mind, we decided to have an inclusive process where each and every employee of XYZ would get their voices heard. As an initial step, interviews were conducted with all employees in order to get a good understanding of the current situation, identifying issues, and learning about what motivates them. This created a foundation for continued research, where reference cases were studied and previous research was examined in greater detail.

The ideas generated through the literature review and the reference cases, and following suggestions, were presented to all members of XYZ through a document halfway through the process (Appendix 2). Thereafter, they were asked to give their opinions and thoughts on the ideas. Their input was important when applying the model to XYZ. Finally, the application was presented to XYZ, serving as a foundation for their continued work with the design and implementation of an actual reward system. Using this three-step process has aimed at engaging all organizational members of XYZ. Altogether, the process has contributed to an in-depth understanding of the organization and its specific needs, which contributed to the validity and result of this study.

COLLECTION OF EMPIRICAL EVIDENCE IN THE MAIN CASE

In order to understand the full context and specific features of our main case, we have used multiple sources. Yin (2003) suggests six sources that should all be used frequently in the case study research method: interviews, direct observations, physical artifacts, participant-observation, databases and archival records, and, documents found in mass media and other online sources. In the collection of data, we have used the majority of them. Classic observations have not been executed, however, meeting the employees in London, visiting their office and talking to several individuals with connection to the company, has allowed us to get a good feel for the culture of the company. This would otherwise have been an important reason to use direct observations (Bromley 1986 in Mirriam 1988). In addition, an on-going email conversation with the Managing Partner has contributed as an important source of information.
As XYZ is a small company, we were given the opportunity to conduct interviews with all the employees as well as the Founder and freelancers. The initial interviews were held in London, at a café nearby the office, with one employee at the time. The interviews were semi-structured, where we asked the respondents to talk freely about certain topics (Appendix 1). Our goal was to make the respondent feel comfortable and focus on the topics most important to the specific respondent, in line with recommendations of Bryman and Bell (2007). Due to this, the interviews varied some in time, but lasted approximately an hour. At a later time, a second interview was conducted with the Managing Partner to collect more information about the management and parts of the current management control system.

Table 2.1 Interviews with XYZ.

<table>
<thead>
<tr>
<th>TITLE</th>
<th>FORM</th>
<th>DATE</th>
<th>TIME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Consulting Partner</td>
<td>Face to face</td>
<td>21st of February</td>
<td>1h</td>
</tr>
<tr>
<td>Consultant Partner</td>
<td>Face to face</td>
<td>21st of February</td>
<td>50 min</td>
</tr>
<tr>
<td>Managing Partner</td>
<td>Face to face</td>
<td>21st of February</td>
<td>2h</td>
</tr>
<tr>
<td>Founder</td>
<td>Face to face</td>
<td>21st of February</td>
<td>1h</td>
</tr>
<tr>
<td>Team Coordinator</td>
<td>Face to face</td>
<td>21st of February</td>
<td>1h</td>
</tr>
<tr>
<td>Managing Partner</td>
<td>Skype interview</td>
<td>28th of February</td>
<td>50 min</td>
</tr>
<tr>
<td>Insight Consultant</td>
<td>Skype interview</td>
<td>28th of February</td>
<td>1h</td>
</tr>
</tbody>
</table>

The extensive interviews allowed us to gain insights on the current reward system, among other managerial views and tools. In the interviews with the Founder and Managing Partner they communicated the desired direction of the future reward system and overall business. Equally important, the interviews gave us a good understanding of the culture and what motivates the employees. As all employees were interviewed, a more versatile view of the company was revealed. We believe that including everyone limits the risk of important factors being misrepresented, and thereby avoiding the risk of misleading the reader, which is important to consider (Merriam 1988). Further, as theory points to the importance of considering the individuals in the design of such systems, as all individuals differ in their preferences and keys to motivation (Hein 2012), we believed it to be an important choice to include all organizational members.
Discussions concerning reward systems may be a sensitive area. By conducting the interviews without any other members of the organization present we strived to emphasize the confidentiality of everyone involved, to make them comfortable in order to share their private views and opinions. Further, they were offered the possibility to remain anonymous. As some information is extremely sensitive, such as pay levels, no actual numbers will be presented but relative measures are used to gain insight in the management control system. The main case have requested to remain anonymous, a wish that has been respected.

2.2.2 REFERENCE CASES
A multiple-case study allowed us to gain insights on possible best practices. As discussed previously, reward systems should be designed to fit a specific organization. (Svensson & Wilhelmsson 1988) In order to evaluate and analyze the reward systems in the reference cases it is important to consider in what setting they work, why the case study research method is well suited (Yin 2003).

The multiple-case study strategy requires greater resources, however, its evidence is considered more robust than those of the single case study, and thereby more compelling (Herriott and Firestone 1983 in Yin 2003). Attempts to describe and illustrate the specific practices concerning reward systems and motivation within the reference cases have been undertaken. This corresponds to the descriptive case study terminology, which can be used to determine best practices. (Ryan et al. 2002) The insights, in combination with theory, provided us with a good foundation for the creation of a model.

CHOICE OF REFERENCE CASES
As we strived to create a model that can be used for discussions of the design and usage of reward systems in this type of organizations, the choice of reference cases was important. The cases have served as a source of inspiration, but as reward systems should be adapted to the special conditions of each organization, we have examined organizations similar to XYZ in size and character. The selection was therefore made strategically (Yin 2003). All reference cases are PSFs, providing highly unique and individual dependent services. We further chose to only include consultancy firms as these are not the key focus in traditional PSF research. Combining the insight gained from the reference cases with what previous researchers have found about
PSFs in general can therefore provide a more versatile and contemporary view on PSFs and the challenges they face.

Table 2.2 Reference cases: An introduction.

<table>
<thead>
<tr>
<th>ORGANIZATION</th>
<th>TURNOVER (SEK)</th>
<th>NO. OF EMPLOYEES</th>
<th>FIELD OF WORK</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>25 000 000</td>
<td>15</td>
<td>Strategic Consulting</td>
</tr>
<tr>
<td>BBB</td>
<td>170 000 000</td>
<td>125</td>
<td>PR Consulting</td>
</tr>
<tr>
<td>CCC</td>
<td>140 000 000</td>
<td>70</td>
<td>IT Consulting</td>
</tr>
</tbody>
</table>

With the ambition to receive fresh ideas, we have chosen successful organizations whose reward systems are positively perceived by their employees and whose systems have been acknowledged as leading examples in other forums. We chose to not include more than three reference cases as we found that these contributed with the insights needed. Since the choice was made strategically, why the marginal benefit of additional cases was small. Prior to contacting the reference cases, online research was conducted to ensure their suitability to be part of the study, in line with Yin’s (2003) recommendations to conduct mini-cases before including them in the study.

**COLLECTION OF EMPIRICAL EVIDENCE IN THE REFERENCE CASES**

As in the main case, the six sources recommended by Yin (2003) have been considered to get a picture of the reference cases. The main sources have been semi-structured interviews (Appendix 1), articles, documents, and each company’s website.

It is reasonable to think that the management might try to portray its reward system as both flawless and successful in a way to manage their image. However they might not like to give the full picture if they consider their reward system as a source of competitive advantage (Samuelsson 2008). To overcome these issues we have tried to interview more than one respondent representing each reference case. Prior to the interviews we also informed all participants that their names, as well as the organizations’, were going to be disguised in the final work. The respondents have all had good knowledge of reward and incentive practices at their firm, which is important to gain a comprehensive understanding of the situation (Yin 2003).
A multiple case study aims to detect similar results within the cases, why an analysis, presenting joint conclusions, will follow the presentation of the cases. This has been done by identifying the most important insights from the references cases. We believe that joint conclusions will reduce repetition. As the reference cases are similar to each other in terms of character, we believe that this approach has portrayed the findings in a fair and just manner. The systems used in the reference cases have shown to be very similar, with few exceptions. The results therefrom are thereby replicable (Yin 2003).

### 2.2.3 QUALITY ASSURANCE OF EMPIRICAL DATA

To assure quality of the empirical data four criterions need to be taken into consideration when undertaking a case study; construction validity, internal validity, external validity and reliability. However, the second criterion is not applicable to this study as it is explorative (Yin 2003).

The criterion of *construct validity* has been fulfilled through the use of multiple sources of evidence (Yin 2003). Further, all respondents and case participants were given the opportunity to approve the empirical data used in the final version, in an effort to eliminate any doubt of whether the facts and quotations leading up to the conclusions corresponds to what has been said and the meaning of it. The corrections made from this process enhance the construct validity (Yin 2003). Further, the study has been peer-reviewed as part of the process. In order to enable the reader to gain better understanding of the standpoints of the study, key assumptions are defined in a matter that allow the reader to understand the importance and meaning of the discussions and conclusions drawn (Yin 2003).

The *external validity* has been enhanced through the use of a multiple-case study research approach. This is due to the fact that critique against case studies argues that a single case offers

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**Table 2.3 Interviews with reference cases**

<table>
<thead>
<tr>
<th>ORGANIZATION</th>
<th>TITLE</th>
<th>FORM</th>
<th>DATE</th>
<th>TIME</th>
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<tbody>
<tr>
<td>AAA</td>
<td>Founder</td>
<td>Face to face</td>
<td>7th of March</td>
<td>1h 20 min</td>
</tr>
<tr>
<td>AAA</td>
<td>Consultant</td>
<td>Face to face</td>
<td>7th of March</td>
<td>50 min</td>
</tr>
<tr>
<td>BBB</td>
<td>HR Manager, Consultant</td>
<td>Telephone interview</td>
<td>8th of March</td>
<td>1h 40 min</td>
</tr>
<tr>
<td>CCC</td>
<td>Manager</td>
<td>Telephone interview</td>
<td>2nd of May</td>
<td>40 min</td>
</tr>
<tr>
<td>CCC</td>
<td>Consultant</td>
<td>Telephone interview</td>
<td>3rd of May</td>
<td>30 min</td>
</tr>
</tbody>
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18
a poor basis for generalization. By examining several cases we believe that the chances for generalizations have increased (Yin 2003).

The criterion of reliability is of great importance in case study research methods as conclusions are drawn from observations and the socially constructed perceptions of the participants. It is therefore important to assure that the same conclusions could be drawn if the study had been done over again. To strengthen reliability substantial documentation during the process has been done in line with recommendations of Yin (2003). To reduce any form of bias we have both been present during each interview, which has allowed for better conversations and interactions with the respondents - a key to successful qualitative interviews (Bryman & Bell 2007). Doing so help us control the collection of empirical evidence and could serve as a replication guide for future research.

To avoid systematic loss of important information all interviews have been recorded allowing us to listen to what was said more than once. However, recording the interviews can have a negative impact too, as the respondents might not answer as outspoken as they would otherwise have done (Bryman & Bell 2007). In efforts to limit such negative impacts, all respondents were asked whether they felt comfortable with being recorded before the interview started. In all cases the respondents said they did.

Throughout this paper, the information presented regarding our main case, as well as our reference cases is the result of the aggregated empirical data retrieved. If nothing else is mentioned as a source, the interviews and documents shared by the organizations is the source of the information.

2.3 THEORETICAL RESEARCH STRATEGY

The use of secondary data has its benefits; it is efficient and often of good quality. Further, secondary data can be analyzed from many views, which can contribute with a unique study in itself (Bryman & Bell 2007).

In an initial stage of writing the study we chose to read everything we could find on reward systems and their role in small firms and PSFs respectively. This was an important part in identifying the aim of this study and a way for us to prepare for what empirical data needed to be collected. The collected data were then narrowed down to the critical theories in relation to our aim; the theory chapter only examines relevant theories in regard to our aim. However, in
regard to theories on small firms, most previous research has focused on the unit of SMEs. As small firms are part of the concept, these theories have laid the foundation for our theory chapter on small firms. This process allowed us to create a deeper understanding to the relative importance of different theories.

Collection of data has partly been done through the use of online sources provided by the University of Lund, among other LubSearch and BusinessSearchComplete, in order to find academic articles. It has partly been done through the use of books on the subject. Traditional as well as contemporary theories have been examined, as it is important to grasp the direction in which science is heading. In addition, discussions concerning the topic have been held with numerous individuals, such as, other consultants and experts working in the area.

Today, vast amounts of information are available without any guarantee of its quality. Therefore it is highly important to evaluate the sources and their reliability. To increase the credibility and quality of the collected secondary data, mainly peer-reviewed articles have been used.

2.4 ANALYSIS STRATEGY
Merriam (1988) states that conclusions drawn reflect the authors' background and the interaction with other individuals, which we have tried to consider in the process of analyzing the findings. However, the reader should also consider this. To guide the reader towards the final results, a two-step analysis has been done. First, the findings in the reference cases have been analyzed to detect insights into possible best practices. To create a model for how to design and use reward systems in small PSFs, a second analysis of the insights previous analyzed and theory is undertaken. Further, when applying the model to XYZ, some comparison to the previous analysis is done.
3 MAIN CASE

This chapter presents the main case of this thesis, XYZ. After an introduction of the company, a presentation of their current reward system follows. This aims to present an accurate picture of the current situation of XYZ for the reader. The last part of this chapter consists of a short summary.

3.1 INTRODUCTION

XYZ is a London-based consulting firm consisting of expert consultants within the food industry. The Founder is considered an expert within the field of nutritional food and brand image of food companies. The Founder has written several books and been working with consulting at numerous companies worldwide. The consultants of XYZ work in over 40 countries world-wide, which results in plentiful travel days per year.

After having worked as a self-employed consultant for several years the Founder started to collaborate with a British design agency based in London in the early 21st century. In 2008 the design agency and the future Founder of XYZ decided to start a joint venture, XYZ was born. Initially, XYZ consisted of the Founder and two other consultants. One of these had the role of a manager and the other had a more operational role. The Founder’s function within the joint venture was the role of a guru, since it was his idea and consulting model that the joint venture was based upon.

The joint venture created expectations and demands from both parts in the collaboration – but it did also constituted a financial security for XYZ during the first years of business. XYZ continued to grow and more consultants were hired. As the Founder has his basis in Sweden, he has not been present during the day-to-day operations at the office. Historically, this has been solved by one of the consultants acting as operational manager in London.

In 2010 the company experienced rapid growth, resulting in that the company came into 2011 with high expectations and ambitious goals. However, 2011 turned out to be a difficult year for XYZ. Rearrangements within the organization, among other things, resulted in the cutting of staff. This had partly to do with the fact that the growth in 2010 was not solely organic but partly came as a result of management decisions. A hierarchal structure was the result thereof, the more complex structure brought more work than benefits to the organization.
In March 2012 it was made official that the design agency and XYZ would go separate ways, ending the joint venture and most of the newly hired employees were let of. This was not a decision solely based on financial facts but just as much due to the expected synergies from the collaboration had not been created. The joint venture resulted in a financial debt and the future of XYZ was uncertain. The Founder decided to buy the debt that had been created from design brand for one penny. During 2012, XYZ reorganized and downsized.

As the split between the design agency and XYZ was announced – a synthetic partnership model was introduced to the employees and at this time one of the consultants was assigned the title Managing Partner. A new structure was created with the ambition to create a sense of ownership among the employees. The synthetic partnership involves all employees, however, it is important to stress that it consists solely of titles and a phantom ownership– the Founder still owns 100 percent of the company and as of today, he has no intention to take on additional partners. The synthetic partnership model consists of a profit sharing model, in which 50 percent of the company’s net profit (gross profit deducted by working capital) is divided among the partners on a yearly basis. The current organizational structure is presented in Figure 2.

![Figure 3.1 Organizational structure of XYZ](image)

In addition to the employees included in the Figure 2, XYZ uses different competences on a freelance basis. Keeping the organization small in number of employees is an intended strategy
to keep the company in a flexible position. The most important freelancer is the Insight Consultant, who brings key knowledge to the firm and is an essential part thereof.

The Insight Consultant has never been responsible for sales but has only been involved in delivering the projects. Due to this, the Insight Consultant has requested to only be compensated by pay, not to be part of any other reward system.

A controller is used in order to manage the yearly budget, help with concerns connected to cash flows and to act as a support towards the administration upon request. Additional freelancers and resources are linked to the organization.

Different titles play an important role in the internal hierarchy of XYZ. They are partly a heritage from older organizational structures of the company, but also an indicator of how much responsibility for sales different team members have. Further on, when we refer to the management of XYZ, this refers to the team consisting of the Founder and the Managing Partner. The history of XYZ has been very eventful during the relatively short period of operations. The Managing Partner expresses the ambition to find a suitable and sustainable organizational model.

2013 will be the year when we really get down to business and start working the way we want to. (Managing Partner: Interview 2013-02-21)

Except from being a company that has a unique and successful model for innovation, brand management and product development, XYZ is an example of a modern and global company in many aspects. The team is a truly international team, where every employee has a different nationality; however, they unite, according to themselves, in their professional roles as consultants. During the interviews, it became evident that the team was very passionate about their job. They considered themselves lucky to be able to work at XYZ and the firm was described as a great place to work. According to the management of XYZ, there is no need to worry about if the employees work enough. On the opposite, the management has to consider the workload of the consultants in order to avoid the consultants working too much. Historically, finding the right competence has not been an issue for XYZ, however, as every organization they believe that the issue concerning retention needs to be considered in the design of a reward system.
The projects carried out by the consultants consist of workshops with companies as well as lectures and presentations based on the self-developed model. The projects are often connected to a certain consultant; however, there is no clear ownership of clients or project. A project often involves more than one consultant; another may contribute with background information or function as a collaborative partner in the execution of projects. Throughout our interviews it became evident that XYZ does not trace an individual’s performance in a specific project, since they believe this to be close to impossible. According to XYZ, the result of a project is to different extents a result of everyone’s participation in numerous projects, which has created, and enhanced the overall organizational knowledge.

XYZ expressed the challenge in rewarding every member in level with his or her contribution to a specific project and the overall organizational result. Some of the organizational members have a more expressive, selling character with a high degree of customer interaction, whereas some of the organizational members have less of a selling role. The members who do not sell as much as others are of equal importance for the organizational success. With this in mind, a model that rewards every employee in line with his or her specific qualities is desired.

A discussion held between the partners in 2012 revealed the complexity of finding a suitable profit sharing model. Suggestions, such as conducting an equal split, tracking performance, or using peer-surveys, were brought to the table without reaching consensus. However, the financial distress with debts to the design brand agency put the profit sharing project on hold. A symbolic bonus was given to the partners in the beginning of 2013 and the process of finding a suitable profit sharing model continued.
3.2 CRITERIONS FOR REWARDS

The only criterion used as a basis for rewards by XYZ is sales. According to the management, this is due to the fact that sales are the backbone of a consulting firm. The small nature of the company contributes to the main focus; create a sustainable cash flow. If new projects stop coming in to the company, the future existence of the company will be at risk. Therefore, the management finds it important to create incentives for the consultants to sell as much as possible. The sales goals do not affect every employee, only the ones that have a more senior role in the company, hence Senior Consulting Partner and Managing Partner. The goals have historically been determined by the management and there has not been any significant punishments or rewards connected to the success rate of the goals.

3.3 FORMS OF REWARDS

XYZ's existing reward system consists of financial rewards, a monthly pay and an annual profit sharing. There are very few, almost none, employee benefits. Due to the small size of the company, creating company contracts with for example, insurance companies, are not beneficial seen from the organizational perspective.

*We can't, today, create the buffer needed for benefits.* (Managing Partner. Interview 2013-02-28)

Instead the employees buy their own insurances, as well as conduct payments to private retirement funds. The employees themselves decided on this model, when they, in relation to the introduction of the partnership model, were offered the choice between benefits or a higher monthly pay. Although this was a choice made by the employees some worries thereof were noticed. Among the benefits the employees miss, healthcare and retirement plans were seen as most valuable.

*I miss benefits, and I think others do too.* (Employee. Interview 2013-02-21)

Looking solely to the actual pay levels at XYZ, they are believed to be similar to those in other firms with similar tasks in the UK, according to the Managing Partner. However, a more comprehensive look at the total compensation and rewards lead us to believe that the aggregated pay levels are actually somewhat lower than the average levels of pay within this profession.
Further, pay levels within the firm are quite dispersed, where different titles go hand in hand with different levels of pay. The salaries are confidential both internally and externally; set in a classic manner with yearly discussions with the management behind closed doors. However, being a small firm has led to fairly good knowledge of the salaries of others as everyone is working close together with one another.

The differences in pay are partly a result from the time of the joint venture, where increased pay levels for some employees were imposed as a mean of enhancing the performance and sales. Hence, the increased level of pay was not dependent on performance, but incorporated sales targets.

As the partnership model was introduced in 2012, the differences in levels of pay were discussed but no actual changes were made. Instead, an idea of compensating the differences through variable means was presented. However, this has not been done as of now. The compounded impression of the interviews is that the employees are mostly interested in monetary compensation, as it was expressed by many of the employees.

> Of course money is motivating. I mean, last time I checked, money could buy you most things. (Employee. Interview 2013-02-21)

### 3.4 COMMUNICATION, FEEDBACK AND PERCEIVED FAIRNESS

The management's ambition is to create a culture that is characterized by a high degree of trust in the employees. The synthetic partnership model strives to create a sense of ownership among the employees, and therefore enhance the motivation to work towards organizational success. Except from this, the management strives to create a highly democratic and informal atmosphere. The Founder stresses the importance of everyone's contribution to managerial decisions, where the project to create a reward system is a good example on the employee participation. XYZ has weekly meetings, in which they discuss current business as well as monthly partner meetings, in which they discuss topics of a more strategic nature. Feedback is handled in a highly informal way through conversations without an official pattern or structure.

Several of the employees have a background within large multinational enterprises, which has resulted in a resistance towards bureaucracy in every size and shape. The extensive travelling days per year and the very nature of the consulting profession makes the service production very individual. The management expects the consultants to deliver a result, not a specific
amount of hours. This may be stressful for the consultants, however a high degree of flexibility without time reporting is offered which is very appreciated by the employees.

The one-room office is situated in an office building containing many different companies. Having everyone gathered in one room creates opportunities for direct feedback and knowledge sharing, but the small area may also have its downsides. Due to the extensive travelling of several of the employees, the office is often only occupied by two or three members of the firm a time. Except from occasional dinners and celebrations the company does not have a lot of social events and celebrations, this might be a result of the small and somewhat scattered nature of the company. Some of the employees requested more formal social activities; others declared themselves indifferent to the amount of social activity within the company.

3.5 SUMMARY
There are many lessons to be learned by studying the main case. Every organization has a history, which will have an impact not only on the current situation, but also on the culture and the way the firm can move forward. XYZ has had an eventful history during its relatively short period of operations. A positive cash flow is of vital importance for the firm in order to survive. This is the main focus and partly an explanation to the current lack of HR policies. The expert consultants enjoy the autonomy of the employment and the flexibility that comes with this type of jobs. However, it is evident that XYZ’s employees are not satisfied with their current reward system. The motivation among the employees is very high and the management of XYZ has a very good knowledge about how value is created; every member of the organization plays a vital role in its mere existence. Therefore, the challenge for XYZ is how to create a reward model that assure that the organizational members will stay within the organization and work towards common goals, as well as excel in performance.
4 THEORY

In this chapter we will present the different theoretical aspects of designing and using reward systems in small PSFs. The first part of the chapter aims at describing how we have created a structure for the theories used. Secondly, a presentation of the specific theoretical aspects of reward systems in general follows. Thereafter the characteristics and reward systems of small firms and PSFs respectively are presented. Lastly a summary of the most important findings, which will be carried on to the analysis is presented.

4.1 INTRODUCTION

In the design of reward systems, which is a part of management control systems, it is important to consider the context the system will be applied in. This is commonly referred to as the contingency approach, which requires that all situational factors are considered as it argues that there is no universal applicable set of management principles to manage organizations. Among other factors, environmental uncertainty and organizational strategy are stated to be important (Merchant & Van der Stede 2007). Based on this approach, the chapter will therefore cover relevant theory about reward systems, small firms and PSFs. Combined; these areas reflect the situational factors needed to answer the research question.
4.2 REWARD SYSTEMS
Following sections will present and discuss the most important theoretical aspects of reward systems in terms of this study. The structure of these sections has been created with inspiration from Arvidsson's (2004) model on different dimensions of a reward system.

Figure 4.2 The Different Dimensions Of The Reward System (Arvidsson 2004:139).

4.2.1 PURPOSE OF REWARDS
BUSINESS MANAGEMENT
The reason for considering the usage of reward systems to manage organizations has its basis in Agency Theory. Agency Theory is built on the assumption that decision making rights are delegated from principals to agents under two assumptions; that all individuals aim at maximizing their own self-interests and that they are rational and capable to foresee the outcome of their actions and decide the value of their wealth. Unless individual goals are congruent with those of the organization, an agent problem will arise. However, using incentives and rewards, the organization can create goal congruence (Anthony & Govindarajan 2007). Hence, management should design a reward system allowing individual goals to coincide with the organizational goals (Arvidsson 2008).
Agency Theory, and other cynical management theories, has been criticized repeatedly as they assume that humans are opportunistic in nature. Such assumptions are according to Goshal (2005) the invention of researchers and scholars, reimbursed by other researchers. However, the use of reward systems is relevant even without the support of the assumptions made in classic Agency Theory, for other reasons than managing behavior. For example, Banfield and Kay (2008) argue that individual performance depend more on the environment and resources available than on the individual attributes.

Reward systems are considered a control tool within the overall control package of a company (Samuelsson 2008), alongside with budgets, planning, and strategy work to name a few (Anthony & Govindarajan 2007).
**PERFORMANCE MANAGEMENT**

Performance management is a process in which four stages can be defined: plan, act, monitor and review. In the first stage, plans are made and goals are set. Both financial and non-financial goals, such as learning and development, should be set in consideration to the needs of the organization. Employees will then act to achieve the goals. Performance management should be a continuous process why it is important to constantly monitor the actions taken by employees and the needs of the organization. Lastly, a review of the time that has passed will serve as the foundation for following plans (Armstrong & Baron 2004).

![Figure 4.3 The Performance Management Circle (Armstrong & Baron 2004:13).](image)

Performance management aims at enhancing both individual and organizational performance in the long term. It strives for a joint understanding for organizational goals and means to get there, demanding efficient management. One part of performance management can be performance-related pay (PRP), where pay is decided based on the level of individual performance, including both achievements and behavior. Critic's highlights the risk of PRP leading to lower levels of teamwork as it is individualistically and short term focused. They further emphasize that is based on subjective judgment (Armstrong & Baron 2004).

In performance management, paper documentation should be held to a minimum and line managers rather than HR-managers should be engaged in the process. Armstrong and Baron (2004) claim that performance management, and essentially HR practices, add value as it help communicate a shared vision, define goals, communicate what performance is requested and enhance motivation through continuous feedback. It further encourages individuals to take part of managing the firm, rather than merely being controlled from above (Armstrong & Baron 2004).
MOTIVATE PREFERABLE BEHAVIOUR
Motivation is an integral part of reward systems, to create goal congruence between the individual and the organization. However, numerous researchers have raised red flags concerning the effect rewards can have on motivation, arguing that rewards might lead to lower levels of motivation among employees - thus lower business performance (Kohn 1999; Pfeffer 1998 in Catasús et al. 2008). To hamper such negative effects and allow the reward system to spur motivation, an examination of motivation theories that are considered to have an impact on the outcome of reward systems will follow. As of today, motivation theory is becoming more and more individualized, recognizing that motivation highly depend on the individual’s preferences and background (Hein 2012).

Patterns of behavior have been shown to represent different levels of motivation. Taking initiatives, being able to work towards a goal, being persistence, having work intensity and high work performance are all argued to be signs of motivation (Hein 2012; Arvidsson 2008). This view has been the foundation for the behavior theories of motivation, which aim at examining and analyzing individual’s behaviors in a certain environment in order to understand what motivates them.

For example, Maslow examines the drivers of motivation and their relative importance in his Theory of Need. He argues that there is a hierarchy of needs where lower levels have to be fulfilled before the next level of need becomes the object of focus. He defined five needs, which in order of hierarchy are: physiological, safety, belonging, esteem and self-actualization. Only unfulfilled needs can drive motivation (Hein 2012). As employees can be on different levels of the hierarchy of need, Wolvén (2000) argues that it is important to use different forms of rewards to motivate them. In terms of business and management, the needs of esteem and self-actualization are of highest relevance as they are the only levels affected by the design of reward systems (Arvidsson 2008).

Another behavioristic theory is Hertzberg’s Two-Factor Theory, which specifically focus on work motivation. In this theory Herzberg argues that there are two key factors, hygiene and motivational. Recognition, achievement, responsibility, work itself, promotion and personal growth are considered motivational whilst working conditions, job security, pay and other monetary rewards are considered hygiene factors. The absence of hygiene factors will merely lead to discontent among co-workers - not satisfaction, nor motivation. In contrast, the
motivational factors can lead to satisfaction and motivation but lack thereof will not lead to discontent (Herzberg 2003). Management has to focus on the hygiene and motivational factors simultaneously; motivating ones employees is important, lack of satisfactory hygiene factors risk leading to loss of key employees (Arvidsson 2008).

Hackman and Oldham (1976) have defined five prerequisite, which can enhance performance; skill variety, task identity, task significance, autonomy and feedback (Hackman & Oldham 1976; Hein 2012). Skill variety, task identity and significance contribute to making the task seem meaningful, whilst autonomy creates responsibility of outcome and feedback allows the employee to know the actual result. When the employee experience meaningfulness, feel responsibility for outcome and has knowledge of actual results job satisfaction, quality of work, personal development and motivation can all be enhanced (Jacobsen & Thorsvik 2008).

Distinction between intrinsic and extrinsic motivational factors is the key theme in the Attribute Theory. Intrinsic motivation is connected to the task itself and comes from within the individual as a result of performing the task (Hein 2012). It can result in enhanced creativity, vitality and improved quality of work and is associated with the well-being of humans (Gagné & Deci 2005). Extrinsic motivation on the other hand, is portrayed by engagement in activities as a mean to an end; in strive for financial or non-financial rewards (Hein 2012).

Intrinsic motivation is related to involvement in challenging and creative tasks while extrinsic motivation has a relation to simple, repetitive or even unattractive tasks (Gagné & Deci 2005). Hence, offering employees complex and challenging tasks to perform should reduce the need for extrinsic motivation. However, no organization consists of merely challenging tasks, nor unattractive ones (Reinholt 2006).

Vroom (1964 in Arvidsson 2008) stresses the importance of making the individual’s motivation and achievements connected to both the individual and organizational goals. This is known as the Expectancy Theory. According to Kaplan and Atkinson (1998 in Arvidsson 2008), the reward system should be connected to specified actions and achievements in line with the organizational objectives. The employee needs to experience that there is a connection between
action and reward or punishment. Further, the action itself needs to be perceived as possible to accomplish by the employee (Arvidsson 2008).

**RECRUITMENT AND RETENTION**

Reward system can function as an important mean in an organization’s recruitment process. By offering an extensive reward package, individuals might perceive the company as an attractive employer. Reward systems can further serve a purpose of retaining valuable employees (Arvidsson 2008).

**4.2.2 CRITERIONS FOR REWARDS**

**MEASUREMENTS**

In the creation of reward systems a fundamental challenge is to determine what to base rewards on and how to measure it. Simply stated

*If you want corn, plant corn.* (Knight, webpage, 2013-03-30)

Different organizations, depending on their specific industry, strategic focus and characteristics, will need to use different ratios and metrics. Every organization must work actively with trying to identify the specific metrics and ratios that reflect the factors of vital importance for their organization’s success, commonly referred to as KPIs. If an organization whose organizational culture encourages results, metrics and ratios will play a vital role in terms of basis for rewards. The ratios should, according to Catasús et al. (2008), be a tool in order to control, learn, mobilize or reward an organization, team or individual. Further, it is important that the ratios used are limited in numbers, easily understandable and possible to measure (Catasús et al. 2008).

When the most suitable KPIs have been identified, they should be incorporated in the reward system, linking the reward system to the organizational strategy. Arvidsson (2008) emphasize the importance of setting reward criterions that are linked to, and supports the organizational strategy. KPIs are often used in various organizational areas; however, when further on referring to KPIs, we solely discuss KPIs and their role in reward systems.

Since the usage of metrics and ratios are dependent on numerous factors linked to the overall organizational situation and strategy, the number of metrics and criterions possible to base
rewards on are close to never ending. In the next section, we will present different forms of criterions to base rewards on.

**FINANCIAL/ NON-FINANCIAL**
Criterions can in large be set on financial or non-financial metrics. Financial ratios and metrics play an important role in traditional business administration. Information linked to financial ratios is often produced in the bookkeeping of a company, which makes it easily accessible and clearly formulated. Financial metrics are therefore very appealing for management to use. The different classifications within accounting, such as costs, debt and revenue, creates the possibility to create close to endless amounts of different financial metrics. EBITA and ROI are, only to mention a few, examples of financial ratios used as foundations for rewards in organizations (Catasús et al 2008).

The greatest weakness of using financial ratios is the risk that employees will plays focus on achieving certain ratios, instead of creating organizational value (Catasús et al 2008). The controllability of financial ratios is also a challenging area, which will be discussed further on.

Non-financial metrics, such as client satisfaction or defined quality aspects are commonly used as a complement to financial metrics. The balanced scorecard (BSC) is a well-known example of a way of using both non-financial and financial measurements. It aims at creating both short-term and long-term incentives (Arvidsson 2008). Client satisfaction is one non-financial metric possible to use as a reward criterion. According to Catasús et al. (2008) this can be measured by conducting surveys or interviews with clients.

**INDIVIDUAL, TEAM OR ORGANIZATIONAL LEVEL**
Reward criterions can be based on metrics on different levels of the organization; individual, group or organizational. Criterions based on individual performance are more closely connected to what the individual can affect and be held responsible for. It thereby reduces the risk of free riding, where individuals rely on the performance of others without making satisfactory contributions (Merchant & Van der Stede 2007).

An obvious advantage of criterions based on individual performance, is that it makes individuals feel more motivated to act in a certain direction as the reward is closely connected to their individual performance, clearly traceable to the individual actions and achievements. Thereby, it is more favorable to act in a manner that increase ones rewards (Merchant & Van der Stede
2007). However, criterions based solely on individual performance can also result in short-termism (Arvidsson 2008).

The ambition of having criterions for rewards based on group level performance is to give employees incentives to work well together as a team and to enhance information sharing and decrease competition among colleagues. However, group rewards do not serve as a strong incentive unless the individual members of the group feel that they have the power to affect the performance that the criterion is based upon. In larger groups, merely managers can be expected to feel as though they can affect the outcome. Further, if performance is not traceable to the individual the risk of free riders appear and the accompanying risk of dissatisfaction of the distribution of rewards (Arvidsson 2008). This has to be considered and dealt with when deciding to use group, or organizational, based rewards. However, when synergies are an important part of the overall performance, group based rewards can be a good choice. They can serve as a good source of cultural control, wherein organizational members excersise mutual monitoring to protect their share of rewards (Merchant & Van der Stede 2007).

Some researchers have emphasised the benefits of using group rewards rather than individual ones. Specific goals of the organization are not met exclusively based on an individual achievement, but is the result of joint effort of all organizational members and the extensive collaborations between them. It thereby makes sense not only to use criterions set on individual performance but on group level performance (Merchant & Van der Stede 2007).

**PERFORMANCE MEASUREMENT AND CONTROLLABILITY**

The rule of controllability stress that employees should only be evaluated on and held responsible for things that they can either control or influence (Arya, Glover & Radhakrishnan 2007). It is important to create a system, which identifies the metrics directly, connected to an individuals or a group's performance (Arvidsson 2008).

When solely using criterions exclusively linked to a specific result, the system risk to create an unfair situation for the employee. The specific result may occur due to several external factors, beyond the control of the employee (Jacobsen & Thorsvik 2008).

Unless results can be measured accurately and have a clear link to either individual or group performance there is a risk of dysfunctional behavior within the organization. Employees might
take opportunities to maximize their short-term wealth by manipulating the figures on which rewards are based (Sitkin & Bies 1994 in Jacobsen & Thorsvik 2008).

### 4.2.3 FORMS OF REWARDS

When deciding what forms of rewards to use, an organization has to consider the company specific situation. Whether motivation needs to be improved, if there is tough competition for employees, whether competencies are being retained within the company and the form of ownership are questions that will have to be answered prior to the design (Arvidsson 2008).

Merchant and Van der Stede (2007) argue that rewards should be valued, have impact, be understandable, timely, durable, reversible and cost efficient in order to have the greatest motivational effect. Unless a reward is considered valuable, it will not have a motivational effect. As individuals value different things, rewards should differ between individuals to have the greatest effect. Whether a reward has an impact or not, regardless of whether it is valued, depend on individual’s preferences, but can be enhanced through visibility. Thirdly, the employees must understand the reason for receiving a reward and the value thereof. Rewards given timely have far greater motivational power than do delayed ones, and giving them timely could even benefit the learning curve of employees. Durable rewards are those that will not be quickly forgotten, thereby having a longer lasting effect. Whether a reward is cost efficient or not depend on the relationship between the motivational effect and the organizational cost (Merchant & Van der Stede 2007).

Rewards can either be positive or negative and can be used to have different impacts on the individual's behavior and performance. Among the positive rewards is autonomy, power, pay increases, titles, job assignments, recognition and promotions. Contrary, loss of job, interference from superiors, being assigned unimportant tasks and demotion are known as negative rewards, or if one so prefer, punishments. (Merchant 1998 in Merchant & Van der Stede 2007) According to Arvidsson (2008) reward systems are more efficient if they focus on positive rewards.

**FINANCIAL REWARDS**

If a company focuses too much on financial rewards it has been argued that this can result in a "reward spiral". After a reward is given, it no longer has a motivational effect, why new goals and rewards have to be given continuously (Herzberg 1971 in Jacobsen & Thorsvik, 2008). Further, financial rewards fail in respect to some of the requirements of a successful reward system. Pay,
for example, typically has been argued to have low impact, as pay raises commonly are minimal in times of low inflation. As pay is often kept secret, impact is reduced even more. It is neither timely nor durable, and quite expensive. For example, bonuses are reversible, but neither pay raise nor promotions are reversible (Merchant & Van der Stede 2007:404-5). However, financial rewards are yet considered a crucial part of the reward system to attract and retain individuals (Arvidsson 2008).

Pay, a static reward for the contributions an employee make, is motivational for many individuals as it can be converted into so many other desirable things, for example the ability to enjoy early retirement and leisure time (Rynes, Gerhart and Minette 2004). Money can be seen as a symbol of power and is often connected to prestige. Merchant and Van der Stede (2007) even argue that money can represent one’s self-worth. As employees tend to value money, the greater portion of pay that is based on performance, the greater incentives the employee will have to achieve organizational goals. However, pay solely based on performance would force the employee, instead of the organization, to bear risk of operations. To do so, employees will need to be compensated. Instead, a balance between variable and static pay is recommended (Merchant & Van der Stede 2007). Many studies have come to the conclusion that pay is not motivational. But some researchers argue that the importance of pay has been significantly underestimated and that it is still an important motivational factor (Rynes et al. 2004).

Another form of financial reward is profit sharing, which aim at creating a sense of ownership and enhancing the team spirit within an organization. By creating a sense of ownership, the ambition is to make the employee act as if they were the owners of the organization, to enhance their motivation and to assure goal congruence (Merchant & Van der Stede 2007). In a reward system based on profit sharing, the main challenge is to find a suitable way of how to divide the profit between the employees. The split between the employees might be made on an equality basis or by tracing performance. However, by tracing performance, organizations risk enhancing the competition among employees. Another challenge is to find a suitable way to measure the performance of the individuals (Berger & Berger 1999). Lastly profit sharing programs risk being short term focused as rewards only account for what has happened in the current period (Arvidsson 2008).

There are numerous types of financial rewards, which have been created in order to stimulate a certain behavior. One way to avoid short-termism is to reward in share options, which are based
on the idea that the decisions made today will be rewarded or punished by the market in the future. Another example of rewards with a similar ambition is the creation of bonus banks, where the bonuses are given over a long period of time, in order to eliminate short term, high-risk decisions (Arvidsson 2008).

**NON-FINANCIAL REWARDS**

Non-financial rewards consist of benefits and recognition. For example, benefits may consist of health insurance, retirement and disability benefits to mention a few (Zingheim & Schuster 2007). The usage of employee benefits varies between organizations and different countries due to traditions, social structures and national regulations. It is likely to believe that the importance of employee benefits differs highly between individuals due to one’s personal life and preferences, yet they are seen as an important part in the attraction of employees (Arvidsson 2008).

Recognition can be both formal and informal. Celebrating birthdays, having social events such as Christmas parties and other outings are all forms of recognition. Other forms are appreciation on a daily basis and celebrations for good performance. Hence, recognition does not have to be expensive but can be free in its simpler forms. Since it concerns showing gratitude for the efforts and performance of employees a simple “Good work” can have a great impact. This can be seen as informal recognition, which according to Kohn (1993) should not be designed to find “winners” as that would bring a bunch of “losers”. Instead, the informal recognition system should focus on every employee, regardless of its contribution to the firm.

Formal recognition is often given publicly, through an intranet, noticeboard or as nominations such as “Employee of the month”. Through the formal recognition good performance of a single employee can be recognized and used as an example of what behavior or performance is desired. It can involve giving employees, individually or on team basis, gifts, vouchers, restaurant visits or trips. Such formal recognition has been reported to have benefits that last longer than the award itself, as it can enhance the chance of promotion and other advancements within the company. Recognition could be a source of enhanced motivation for an already motivated employee, but perhaps not bring motivation to those lacking motivation. As with other forms of rewards, perceived fairness of the system is important, as it might otherwise have demotivating effects (Armstrong & Baron 2004). Recognition from management can, as
previously stated, have very powerful motivational effects as it can enhance both job satisfaction and make employees take greater responsibility (Arvidsson 2008).

In relation to recognition, a motivational theory to consider is *Hawthorne Effect* which emphasizes that employees take greater responsibility and feel greater job satisfaction when management show interest in them and their work situation. Both of these effects are argued to enhance productivity of the employees, why it should be considered in the design of reward systems (Arvidsson 2008).

**OWNERSHIP STAKES**

Stocks and partnership are examples of when ownership is used as a form of reward (Arvidsson 2008); a way of overcoming the challenges connected to the Agency Theory. However, will not be elaborated further in terms of this paper.

**4.2.4 COMMUNICATION, FEEDBACK AND PERCEIVED FAIRNESS**

**INDIVIDUAL, TEAM, MANAGEMENT OR ORGANIZATION**

Some studies conducted, conclude that every employee should be involved in a reward system, not solely the management (Thompson & Strickland 1992 in Arvidsson 2008). Some organizations do however choose to only include some employees in reward systems, commonly the management. (Arvidsson 2008)

**COMMUNICATION AND PERCEIVED FAIRNESS**

Arvidsson (2008) argue that simplicity and understandability are key concept of successful reward systems. Having a few KPIs, that are forcefully communicated to and are fully understood by employees, can have a greater motivational effect than trying to communicate every micro objective of the company.

Arvidsson (2008) emphasize the importance of perceived fairness of the reward system as organizations consist of cooperating individuals in a social system. Hence, form of reward is of less importance than the relative performance and rewards received as the latter derive the perceived fairness. Leventhal (1980) argue that reward systems should be consistent, be created in a manner that avoid any biases, be based on accurate information, be correct, representing the views of the individuals it concerns and uphold moral and ethical values in order to be perceived as fair.
All organizational members should be informed of expectations, offered the resources needed to reach the expectations and all that have contributed should be rewarded, according to the principle of equality. Perceived fairness is thus found where the individual’s performance and rewards correspond to the performance and rewards of other members of the organization (Adams 1965 in Arvidsson 2008).

GOAL FORMULATION & FEEDBACK
Setting and communicating goals is very important, as there is a linear relationship between goal difficulty and actual performance (Latham & Locke 2006). To motivate employees the goals should be clearly defined, have distinct time frames within which the goals should be attained and be challenging, but realistic (Latham & Locke 1979 in Jacobsen & Thorsvik 2008). However, a prerequisite for the goal setting theory to work is that the employees accept the goals set, why working communication is important. Further, feedback can increase motivation and is important to consider. Frequent and timely feedback on performance both leads to enhanced performance and a more positive view of the reward system according to Otley (1977 in Arvidsson 2008).

Employees tend to focus on what management directs their attention to, why setting appropriate goals and emphasizing the important things are important. If managers fail to focus on the true prerequisites for success, employees may well ignore these as no rewards are linked to them (Pfeffer & Sutton 2006 in Jacobsen & Thorsvik 2008). This could be a reason why it is important to direct a sufficient amount of time and resources to decide which the KPIs are to reach the organizational goals.

Further, the expectations and accompanying rewards need to be communicated to all employees so everyone knows what explicit goals there are to strive for. Setting and formulating goals can enhance motivation and it is appreciated by employees that like having something to strive for and to benchmark their performance against (Bergstrand 2007). If they are not successfully communicated, resources spent on the reward system might be a waste, or worse, the reward system risk having a negative impact on behavior (Arvidsson 2008).
4.3 SMALL FIRMS

4.3.1 CHARACTERISTICS

Nooeboom (1994) states that small firms have three distinct characteristics, namely personality, small scale and independence. Combined, these three characteristics create a qualitative definition of small firms. The personal influence in small firms implies that personal goals and motivations of the organizational members determine the behavior of the company. The small size of the company makes it possible for the owner to pursue his or her personal goals, but the small scale can sometimes make it difficult to actually succeed. This lead to a lack of bureaucracy and high internal flexibility, where adaptability to changing conditions is high (Nooeboom 1994).

The management of small firms often consists of the owner, who oversees every aspect of business, and has the power of control as decision-making tends to be centralized. This results in that the owner-manager is seen as the incentive taker when change is initiated. As management is close to operations, few hierarchal levels are necessary (Wong & Aspinwall 2004).

Employee characteristics are even more important in small firms than in other organizations as the success of the company is closely linked to the characteristics of the employees. The employees tend to have less degree of specialization compared to larger organization (Wong & Aspinwall 2004). Staff turnover tend to be high as employees have trouble seeing career possibilities within a small company compared to larger organizations. The lack of formal training has been identified as a possible problem (Brand & Bax 2002).

Compared to larger organizations, a stronger corporate mindset can be created due to the small number of employees. The culture of small firms is highly dependent on the owners’ personality and preferences (Wong & Aspinwall 2004), which is why HR policies differ greatly between organizations (Duberley & Walley 1995 in Brand & Bax 2002). Employees often have extensive face-to-face contact and collaboration between them tends to be high (Wong & Aspinwall 2004).

Research conducted on small firms emphasizes the tendency to dedicate most of their attention and energy towards operational and technological aspects of the business, neglecting the organizational and management aspects of the business (Biazzo & Bernard 2003 in Garengo & Bernadi 2007). The simple structure of small firms enables good flow of information, and the managers are often “multitaskers”, with many different roles within the organizations.
Management skills and competences among owners tend to be modest: as the owner and management are occupied with the day-to-day operations, managerial issues risk being neglected (Wong & Aspinwall 2004).

Further, Anthony and Govindarajan (2007) argue that management often has a good understanding of the business process, in which they personally can motivate the employees. This makes the demand for a complex structural management control system lower. However, they stress that this should not be interpreted as small firms not needing a framework for control, including different control tools, where budget, performance management, and reward systems are well known parts.

4.3.2 REWARD SYSTEMS IN SMALL FIRMS

Small firms face particular challenges, which make previous research on HR practices in large organization hard to apply (Heneman & Tansky 2002). The challenges connected to reward systems consist of several aspects; the lack of formal HR practices (Markman & Baron 2003 in Cardon & Stevens 2004), an ambiguous firm identity that is easily influenced by the opinion of new organizational members (Cardon & Tolchinsky 2004 in Cardon & Stevens 2004) and the lack of resources needed in order to create a successful reward system (Stinchcomb 1965 in Cardon & Stevens 2004). Other aspects which are important to keep in mind when discussing HR in small firms is the aim of maintaining flexibility in staffing, to develop HR practices which are able to adapt to new circumstances, both internal and external to the organization (Cardon 2003 in Cardon & Stevens 2004).

According to Graham et al. (2002 in Cardon & Stevens 2004) financial compensation is one of the most important topics in small firms. Unsatisfactory compensation can lead to difficulties in attracting employees and the loss of knowledgeable employees who are a crucial part of the organization. They argue that compensation and reward systems are important in a wider perspective, as a mean of communicating and directing the employees towards organizational goals and to signal legitimacy. In terms of performance management, Cardon and Stevens (2004) argue that small firms normally do not use formal appraisals nor do they handle employee issues in a formalized way. However, compensation tends to be more closely connected to actual performance in small firms (Zenger 1994 in Brand & Bax 2002).
The empirical evidence of how benefits are given is scarce, but some indicate that benefits often is lower, however, some authors claim that a better working environment compensates for this fact (Laroche 1989 in Brand & Bax 2002).

4.4 PROFESSIONAL SERVICE FIRMS

4.4.1 CHARACTERISTICS

The production in service firms consists of services delivered and consumed simultaneously and in interactions with clients, the “moment of truth”. To achieve good financial results in service firms, many different variables need to be considered. Clear positioning and a good management system lead to highly motivated employees with high self-esteem. This is a prerequisite for the “moment of truth” to be successful, thus resulting in satisfied clients. Whether clients are satisfied or not will have an impact on the financial result. It is important to create a climate that reflects the values that the organization wishes to portray to its clients, as the climate within the organization will be mirrored in the client interface (Normann 2000). An open and helpful climate among colleagues throughout the organization can enhance the client’s perceived quality of the services delivered (Schneider 1980 in Normann 2000). Further, care and trust among colleagues is an important prerequisite for knowledge sharing, which can be enhanced through the creation of a “good” culture (Von Krogh et al. 2000 in Newell, Robertson, Scarbrough & Swan 2002).

Among service firms, one category is PSFs. PSFs are further a part of the concept of knowledge intensive firms (KIF) which is defined as

*Companies where most work can be said to be of an intellectual nature and where well-educated, qualified employees form the major part of the work-force. (Alvesson 2004:863)*

Defined, a “true” profession is based on a systematic, scientifically based theory. They require long and standardized formal education and has a strong professional association regulating its members, with criterions for certification. Further, members demand a high degree of autonomy. They have an established code of ethics, are socially sanctioned and authorized and have a distinct organizational culture. The true professions often have monopoly of a particular labor market through self-regulation of entry. Lastly, they are client-oriented. The true
professionals are further stated to have a high degree of professional pride and identification with the profession (Alvesson 2004).

Following this widely accepted definition of true professions, more contemporary forms (Newell et al. 2002), such as consultancy, marketing and it-solution firms are not considered part of the true profession label. From this perspective only law and accountancy firms are. Yet, the contemporary forms are loosely referred to as PSFs (Newell et al. 2002).

Services in PSFs are based on sophisticated knowledge delivered by well-educated employees, referred to as professionals or gold-collar workers (Alvesson 2004; Kelley 1990 in Newell et al. 2002). PSFs are highly knowledge intensive and the core of its business is the intellectual capital of its employees (Alvesson 2004; Starbuck 1992; Anthony & Govindarajan 2007).

Services offered by PSFs are often customized to each client’s specific needs, leading to high client interaction throughout the process. They are based on professional assessments and have a high degree of personal judgment. PSFs are highly dependent on knowledge creation within the firm (Løwendahl et al. 2001). However, knowledge creation seldom come from merely one individual but comprises the knowledge created when individuals work together. Teamwork allows for wider perspectives to be taken into account and creates an increased knowledge base to draw upon (Newell et al. 2002).

Many PSFs are structured as adhocracies, rather than bureaucracies, as it is believed to facilitate the work in PSFs. Adhocracies are characterized by minimal hierarchy, work processes self-organized around teams, having few formal rules, policies and procedures, using normative control and self-management, having decentralized decision-making, wherein coordination is achieved through mutual adjustments (Newell et al. 2002). A bureaucracy is, on the contrary, characterized by multiple levels of hierarchy, work processes focused around functional groups, formal rules, using direct control and supervision, having centralized decision-making, wherein coordination achieved by rules (Newell et al. 2002). Management issues in PSFs differ from other forms of organizations (Løwendahl 1997 in Alvesson 2004).
4.4.2 REWARD SYSTEMS IN PSFs

PSFs are for the most part relatively small in size, allowing the manager to personally observe what is going on in the organization. However, some form of management control is still needed (Anthony & Govindarajan 2007). As knowledge-sharing is essential in PSFs, a formal approach of working with incentives can be beneficial (Newell et al. 2002).

In regards to reward systems, autonomy is an important issue to consider as professionals prefer to work independently. Their loyalty lie with the clients and their primary focus is to deliver superior services to clients, not to be cost conscious or assure profitability (Anthony & Govindarajan 2007; Newell et al. 2002). Due to this, reward systems can be essential in order to create goal congruence. However, in the design of such systems, the need for autonomy needs to be considered, to avoid hampering creativity and problem solving (Newell et al. 2002). Control systems should support the professional rather than strictly control (Newell et al. 2002).

Different types of control mechanisms can have a direct impact on the design of reward systems. Result control, action control or clan control can be used (Ouchi 1979). Which form that is most suitable depend on the degree to which output can be measured accurately and how well management comprehend the services performed.

Figure 4.4 Conditions Determining the Measurement of Behavior and of Output (Ouchi 1979:843 slightly simplified).
Result control is suitable when output can be measured accurately but management has limited understanding of the process of delivering a specific service. In the adversed situation, action control is a more appropriate control tool. Clan control is preferred when output is difficult to measure accurately and when management has limited comprehension of the process of delivery (Ouchi 1979). In PSFs the output is commonly difficult to measure accurately and management of the firm has little comprehension of the process of service delivery (Alvesson 2004). Normative control, the creation of a culture with which the employees wish to identify, is thusly the most appropriate form of control. (Mintzberg 1979 in Newell et al. 2002; Löwendahl 1997 in Newell et al. 2002) Further, clan control is commonly used where industry specific codes of conducts or codes of ethics play an important role.

The nature of providing solutions to complex, unique problems impact the possible measures of results. In contrast to manufacturing firms it is difficult to measure output of services in an efficient way (Alvesson 2004). How many hours invested in a certain project, the input, is easily quantifiable compared to output, or result of services. The outcome depends on the perceptions of the client, who is part of defining the problem and who is part of the solving-process (Alvesson 2004; Anthony & Govindarajan 2007). Although revenue can serve as an output measure, it is important to consider that it only reflects the quantity of the services delivered, not the quality. Superiors, colleagues, clients and subordinates are therefore commonly the ones who assess performance (Anthony & Govindarajan 2007).

Knowledge intensive firms, which PSFs are a part of, have five primary sorts of capital; financial, client, structural, human and social. Client capital is defined by the quality of the relationship between clients and the firm and can be measured as client satisfaction, number of new clients or even employee knowledge about clients. Among other things, the structural capital includes organizational structures, business processes and work environment. It can be measured by looking at percentage of successful processes. The human capital encompasses the knowledge possessed by the employees. Lastly, the social capital represents social relationships and networks that can benefit the organization (Newell et al. 2002).

In terms of the different forms of rewards, financial rewards have been questioned in PSFs. For example, Larsen et al. (2005 in Hein 2012) state that pay in itself is not motivational for professionals. However, the social and psychological aspects of pay can have motivational effects as social identification is important to feel belongingness (Larsen et al. 2005 in Hein 2012). Yet,
professionals are often compensated with a relatively high pay and demand a respectful and fair treatment from a company’s management in order to continue working for the company (Newell et al. 2002).

4.5 SUMMARY
In this chapter we have presented various theoretical aspects of the design and use of reward systems in small PSFs. The existence and design of a reward system in any organization is fundamentally based on the Agent Theory, and despite critique the belief that reward systems are necessary stands. Therefore, the interesting challenge is not the mere existence of a reward system, as much as the design of one.

The theory of reward systems emphasizes the link between good HR policies and business performance. In terms of finding the most suitable way of motivating the employees to work aligned with the organizational goals, an organization needs to thoroughly evaluate and identify the different motivational factors among their employees, which may differ between organizations and between individuals.

Among other motivation theories, Herzberg’s (2003) research shows that it is important to distinguish between hygiene and motivational factors. He argues that management need to take both factors into consideration simultaneously, as motivation is important, but the lack of satisfaction among employees concerning hygiene factors may complicate the retention of key employees. By identifying the specific factors that motivates the employees of a certain organization, management can create an efficient reward system. If this is not done correctly, research shows that reward systems can have negative effects on motivation among employees.

Criteria, the basis on which rewards are given, can be financial or non-financial and be measured on different levels. The reward system can be linked to the organizational strategy through the use of KPIs. Regardless of what criteria are used, it is important to assure that they are under the control or influence of whom they aim at rewarding.

There is a wide range of possible forms of rewards to consider in the design of a reward system. It is important to consider what one hope to achieve through the use of a reward system when deciding what forms to use, but also to consider the different preferences among employees. According to the research conducted, reward systems are more successful when kept simple and well communicated throughout the organization.
Small firms face specific challenges when designing a reward system, where classical HR might not be applicable. The lack of resources, the ambiguous firm identity and lack of formal HR practices has certain demands for a reward system. Theory suggests that the existence of reward systems in these types of organizations varies highly and that the founder of an organization’s pluralistic view influences the HR practices highly. The dependence on each and every employee in a small organization creates a demand for a well-functioning HR practice.

The most important resource in PSFs is the intellectual capital of its employees. Knowledge sharing is crucial to transform individual knowledge to an organizational resource. Here, reward systems have proven to be useful. However, professionals prefer autonomy which has to be considered in the design of any management control system. Ouchi suggests that clan control, rather than output control, should be used to allow professionals to have autonomy. Further, clan control would lessen the need for the use of formal control mechanisms such as the reward system. Organizational structures are a part of the structural capital of a firm. Hence, creating a good reward system would increase the compounded capital of the firm.
5 REFERENCE CASES

In this chapter the three reference cases will be presented followed by the most important insights gained. These insights will be brought forward to the analysis.

5.1 REFERENCE CASE AAA

5.1.1 INTRODUCTION

Reference case AAA is a Swedish management-consulting firm founded in the late 1980’s. The business idea of AAA is to widen the horizon of its clients through helping them to set bold, out of the box goals and then help the clients to find an efficient way to work towards these goals. By offering a fixed priced reached through negotiations before the project commences, AAA believes that their offer is more beneficial compared to competitors. AAA is the daughter company to an investment firm, who besides AAA owns four other companies, which are all active in different fields of business.

An in-depth interview, with one of AAA’s founders and previous CEOs, allowed us to gain well-founded insights regarding these topics, seen from the management perspective. The company consists of twelve consultants, of whom five employees through partnership own 23 percent of the company. The parent company carries the rest of the equity. Except from an interesting and rewarding interview with the one of the founders, we had the opportunity to sit down with one of the consultants working for AAA. This specific consultant is also one of the employees who has a financial stake in the company.

AAA does not have any hierarchy dividing the consultants; instead everyone is referred to as “AAA Coaches” and treated equally in terms of rewards. The consultants are given a relatively high base pay and are all part of a profit sharing system that will be explained further on.

As mentioned earlier, AAA sells their services using value based pricing. Through negotiations with the client a fixed price is determined, which will not change, independent of how many hours that are put in to the project by AAA. Before the negotiation, AAA has done an internal calculation concerning the predicted cost and profitability of a project.
5.1.2 CRITERIONS FOR REWARDS

In terms of financial rewards, these can be divided into two different parts. AAA has a well-developed performance management structure, referred to as the “Performance Plan”. The base pay is high and negotiated annually, using the performance management tool as a foundation. The second part of the financial reward package is an annual profit sharing based on sales, explained further in the following sections.

As noted, performance is the foundation when negotiating the level of pay. AAA uses their self-designed “Performance Plan” to decide the relative performance of its employees. It consists of two parts, includes the individual’s performance for the past three months, and it is never longer than one page. The first part focuses on financial terms and long term goals while the latter focuses on operational tasks in the near future.

In the first part, individual annual targets such as productivity, selling, reaching specific client targets and personal development are formulated. In the second part, the quarterly goals are decided and formulated. The latter part of the “Performance Plan” plays a crucial role in making the goals understandable and manageable for the consultants. The “Performance Plans” are revised and renewed four times a year and during the annual pay negotiation between the CEO and the consultant, it is used to track the performance of the employee and determine a satisfactory pay raise.

The second form of financial reward is an annual profit sharing. The reward criterion for the profit sharing is sales. AAA profit sharing system uses ten percent of its net profit, which is divided between consultants by looking annually to who sold what projects and the revenues linked to every project. Hence, the sum to be divided is dependent on organizational performance.

Then the salesmen of a project individually decide whether they want to split their piece with those playing a part in the delivery of the project, or keep it all to themselves. However, it is customary to split the profit with those participating in the delivery. This can be done in different ways. There are three levels of splits: 50/50, 40/60 and 30/70.

Having this type of profit sharing model makes a culture consisting of recognition, communication and high degree of trust among employees a prerequisite.
Having a clearly defined structure does not mean that one cannot have an open, flexible culture. Rather, our culture has been enhanced by our structure. (Founder. Interview 2013-03-07)

The Founder states that the desired culture can be enhanced by creating a good structure and should not be overestimated in itself in terms of management. Rather, it should walk shoulder to shoulder with a structured way of working with these topics.

5.1.3 FORMS OF REWARDS

The financial rewards are, as previously mentioned, a monthly pay and an annual profit sharing. The monthly pay is set at a relatively high level, in order to create a sense of security among the employees. In the past, AAA used a financial reward system where 50 percent of pay was fixed and 50 percent variable. However, they believe that the current system, with relatively high base pay levels and an annual profit sharing is preferable. Pay is determined without any consideration to seniority, theoretically allowing well performing newcomers to have higher pay levels than those who have been with the company for a long time but does not perform as well. The employees appreciate the security connected to the high level of base pay, while the profit sharing works as an incentive to enhance the overall organizational performance.

In terms of non-financial rewards, AAA tries to be generous towards their employees. As a part of the yearly performance management cycle, with constant revising of the “Performance Plans”, AAA takes the opportunity to recognize their employees. By leaving the office during two-day conferences AAA hopes that the employees will retrieve new energy and ideas when spending time with each other under relaxed circumstances.

These conferences can largely be seen as a part of the generous culture surrounding the organization and as a source for bonding between the consultants. One of these conferences is commonly held abroad as a sign of appreciation of the work put into the company by the consultants. To further show appreciation, a Christmas party is held every year.

In terms of employee benefits AAA state that they offer a generous package deal in terms of Swedish standards.
5.1.4 COMMUNICATION, FEEDBACK AND PERCEIVED FAIRNESS

The “Performance Plan” is negotiated in a discussion between the consultant and the CEO, once negotiated and agreed, the parties shake hands. AAA sees the handshake as an important symbolic gesture; an evidence of the agreement between the employee and CEO.

Every week, a “Performance Review” is held. These weekly structured meetings are held to discuss how well in phase every consultant is with their individual Performance Plans. The person responsible for the meeting gives feedback and the ambition is to lessen the possible information asymmetry between management and consultants. The frequency of feedback presents good opportunities for correction if performance begins to slip.

Another important source of feedback comes from the coaching between employees, which is essentially a part of the culture. This is done during the weekly meetings as well as during the projects as they often work in teams of two. Beyond this, there are scheduled monthly meetings with more in-depth discussions between the consultants. The Founder emphasizes that the “Performance Plan” is used as a tool to motivate the employees, as it is hard to become or remain motivated without knowing how well one performs. The “Performance Plans” are individual but the system is highly transparent as all consultants contribute with feedback on each other's performance.

The large amount of meetings and reviews within the organization, and the open atmosphere that surround them, are used to enhance the feeling of fairness in relation level of pay. All employees are aware of what is expected of them and what they have to do to contribute in a satisfactory way. However, pay levels of others are kept secret. AAA has allowed the consultants themselves to account for fairness in the annual profit split, as the consultants themselves decide whether they want to keep their own part or split it with those involved in the delivery. This model places high demands on the culture in respect to perceived fairness.
5.2 REFERENCE CASE BBB

5.2.1 INTRODUCTION

BBB is a consulting firm within the field of communication, consisting of 125 employees. BBB is a part of a business group, which consists of BBB and one other firm. We had the opportunity to conduct an interview with BBB’s HR manager, who simultaneously works as a consultant for the firm.

BBB’s vision is to become the market leader within its field of business. This vision has in many ways shaped the organizational structure and its culture, which has become the primary source of motivating the employees. BBB’s business strategy is to achieve business results and business impact for their clients through passion, innovation and adaptability. In recent years, BBB has been frequently noted for good performance, which makes it an interesting company to investigate.

BBB prefers to employ young, newly graduated consultants, who are not afraid to undertake a high workload. Employees are thus highly ambitious individuals that fit or can be shaped to fit the organizational culture. Extensive selection processes are done to assure this. The competition for the spots available is fierce as many graduates wish to become part of an organization with the clear ambition to become number one within its field of business. The structure of the recruitment process is intended to lessen the need for further reward systems, as the organization uses vast resources to employ the “right” people. Yet, BBB acknowledge the need for re-motivating their employees on a daily basis. Similar to the other cases, BBB has a highly educated and autonomous workforce, which places certain demands on management.

5.2.2 CRITERIONS FOR REWARDS

Pay, the only financial reward used at BBB, is determined based on individual performance and value contributions to the organization. The pay is determined in classic manners, with annual meetings, where market value, historical value and a variable part are considered. The level of pay is a therefore partly a product of whether the targets set in the “Goal Protocol” are attained or not, using a compensation model. The model is supposed to only consider the performance and value brought to the company. Neither negotiation skills, nor seniority is supposed to
influence this process. However, it is natural that performance and value creation increases with experience, why some signs of correlation between pay level and seniority can be found.

BBB uses a “Goal Protocol” in which individual targets, both quantitative and qualitative are negotiated between the consultant and its manager. The quantitative targets are revenue and chargeable time, whilst the qualitative ones are personal development and learning. BBB uses a highly detailed time reporting system, which lays the foundation for price setting. The quantitative targets are essentially derived from the overall organizational budget and negotiated twice a year. The criterions for increased pay levels are the level of attainment of the goals agreed upon. Besides the “Goal Protocol”, the criterion for rewards is that the consultant has done a good job and contributed with value to the organization.

5.2.3 FORMS OF REWARDS

BBB has a clearly defined advancement path within the company, where the final step is to become a partner. Besides the advancement path, BBB uses two primary forms of rewards; pay and recognition. The monthly pay at BBB is as discussed above, partly determined by individual performance and partly a result of market value and advancement in the organization.

The non-financial rewards consist of a standard package of benefits in terms of Swedish standards. In addition to this, recognition is actively used as a reward. Recognition is largely a part of the organizational culture, which emphasizes the importance of feedback and simply “seeing employees”. It is done in many ways, both on a daily basis and on formal occasions. Every week a project is nominated as the “Case of the Week”, directing focus to the good performance of the consultants involved in delivering it successfully. Above the nomination, the project manager is asked to talk about the project – a moment of public recognition.

Recognition is also shown in simple gestures, such as an e-mail sent to all employees highlighting the good performance of an employee, allowing their behavior to set an example of desired behavior. On other occasions, good performance is recognized by the simple gesture of a bottle of wine or a restaurant visit paid by the company.

5.2.4 COMMUNICATION, FEEDBACK AND PERCEIVED FAIRNESS

BBB considers feedback to have a very important role in order to keep motivation high among the employees. Feedback is given to the employees in both formal and informal situations,
mainly through the recognition system. Informally, the project manager of each project is responsible for giving feedback on the work of the consultants involved in the delivery. Formally, individual feedback is given twice a year in a meeting between the employee and its superior.
5.3 REFERENCE CASE CCC

5.3.1 INTRODUCTION
Reference case CCC is a midsized IT consulting firm, consisting of 130 employees. The staff consists of consultants in business development, system development and IT infrastructure.

*We help our clients to identify, develop and implement information technology business opportunities.* (Manager. Interview 2013-05-02)

CCC helps clients find and implement the right IT solutions for the client’s needs, offering services based on well-developed practices. Through interviews with a manager and a consultant, we have gained important insights to the reward system at CCC.

CCC has four core values on which their reward system, and essentially the entire organization, it is built upon; commitment, competence, efficiency and humbleness. The reward system aim at assuring that these core values are being upheld, to assure goal congruence between the consultant and the organization.

5.3.2 CRITERIONS FOR REWARDS
At CCC, pay levels are partly based on performance, partly to the length of employment. Pay is negotiated annually, partly decided based on each employee's performance in relation to the core values. According to the manager, the levels of base pay are relatively high. The core values are the basis of pay discussions and for the criterions that influence compensation levels. In the annual pay review, each manager is assigned a certain amount, which is then split individually based on performance. However, the capabilities of future development are also considered. Hence, performing extraordinarily well one year will only be reflected in pay levels if management sees potential for continued good performance. However, the lower experience in the new role will be seen in more modest compensation increase levels.

The core values are turned into measureable criterions, for example, commitment is broken down into four criterions; commitment to colleagues, to the organization, to the client and the project. The closest manager then assesses how high the commitment has been, using a numeric
scale. The assessment serves as the basis for negotiating compensation in terms of pay. None of the core values is more important than any of the other. The work commitment to strategic or environmental aspects is of equal importance as hauling in new projects and performing well financially. The criterions are measured at two levels, both individual and organizational with the aim to create engagement with clients, employees and the firm, and to create a team-feeling.

Client satisfaction is an important factor and clients are therefore asked to numerically grade the performance of each consultant based on the core values. A document is therefore sent to the client after each project is completed. The grade from the client is used partly for discussions on compensation level and partly to assure that the client is happy with the service. In case the client is not satisfied, the company explains to a greater depth how the system should be used to assure satisfaction with it.

The latter part is motivated by the fact that the firm wishes to keep individuals in the organization, regardless of whether they choose to change career within the company. Allowing one part to depend on the length of employment at the company an employee that has been with the company a long time can change direction without losing the benefits gained as a result of previous performance. This can be a way of keeping the knowledge within the company, if yet in a new role. The management of CCC believes that consultants that have been employed for a long period of time have a superior knowledge base compared to less experienced colleagues. The explaining logic is that an employee that brings more knowledge to the table should also be rewarded for it, even if the knowledge is not perfectly correlated to the current tasks.

5.3.3 FORMS OF REWARDS

CCC uses two forms of financial rewards. The first one is the monthly pay, discussed above. The second financial reward in CCC is an annual profit sharing. Every year, 25 percent of net profit is divided among all employees; managers, consultants and administrative workers. The profit-sharing split depends entirely on whether an employee work full or part time, regardless of any other variables. The profit sharing aims at enhancing knowledge sharing and teamwork within the company.

*We want to give everyone the opportunity to contribute, to helping one another. We think an equal split gets us there.* (Manager. Interview 2013-05-02)

58
Besides the formerly mentioned financial rewards, non-financial rewards are used. Among these, benefits are a natural part. The company has a package of benefits, which includes, to mention a few, high-speed internet, healthcare, phone and computer. These are highly valued by the employees.

The company arranges three conferences per year, of which one is held abroad, and is greatly appreciated by the employees.

Formal recognition is given in times of special events. After an important project has been completed, the firm celebrates its success with the employees, usually by treating everyone to a nice company dinner or by sharing a cake.

5.3.4 COMMUNICATION, FEEDBACK AND PERCEIVED FAIRNESS

All employees at CCC, including the receptionist, are included in the reward system on equal premises. CCC emphasizes that no one receives special treatment. The core values have been part of the organization from the start and have been thoroughly communicated to all employees, becoming a natural part of the organizational culture.

To avoid any discrepancies in the assessments, and essentially pay level, as a result of assessments being done by different managers, gathering a second opinion on the performance of the consultant is always a part of the process. This is used to lessen the feeling of unfairness between employees of different units. Pay levels are discussed individually with each employee at an annual compensation review meeting. Prior to the meeting the consultant considers his or her contribution and individual performance. The meeting starts off by the manager going through the different core values and the attainment of the criterions, followed by the proposed change in compensation. The consultant is thereafter given the opportunity to voice his or her opinion in case it does not correspond to the assessment of the manager.
5.4 INSIGHTS GAINED FROM REFERENCE CASES

In this section we will present the five most important insights gained from the reference cases. By benchmarking against other organization's existing systems many important lessons have been learned.

5.4.1 THE IMPORTANCE OF GOAL SETTING

AAA as well as BBB, set individual goals together with the employees, breaking down the overall and strategic goals of the organizations. Instead of talking to employees in strategic terms, management translates the long-term goals into short-term goals, arguing that strategic goals are too difficult to grasp.

*I have never met a company that has organizational members thinking about the strategic plan on a daily basis.* (Founder AAA. Interview 2013-03-07)

AAA tries to formulate goals clearly, making them understandable for employees, which can be seen by their way of using the “Performance Plans”, wherein both quarterly and annual goals are formulated. They emphasize that it is the job of the management, not the employee to assure the long-term strategy of the business. Employees should be able to trust management instead of having to take responsibility for the business themselves, allowing them to stay focused on what they do best.

5.4.2 THE IMPORTANCE OF FEEDBACK

Continuous feedback, both informal and formal, is an important part of management of all the reference cases included in this study.

*We use feedback to get everyone to see where they currently are in relation to the goal, how they got there and how to best proceed in order to reach the goal* (Founder AAA. Interview 2013-03-07)

The consultant interviewed at the same firm confirms that the feedback given from colleagues and managers are an important source of support in his or her work.

*When I am doing a good job on a project, feedback from my colleagues makes me keep striving to perform well and achieve the goals and in times when I struggle with a project, feedback from them can help me back on track... sometimes a different view is crucial* (Consultant AAA. Interview 2013-03-07)
Drawn from previous quotations, the feedback could be seen as a way to make goals feel more attainable and essentially create a sense of the organization working towards a common goal. The usage of feedback varies between the three reference cases. In BBB, feedback is considered a part of the recognition system, where feedback is given in public means of recognizing good performance. In AAA and CCC, feedback is dealt with in more formal ways. Surprisingly, AAA, the smallest out of the reference cases, has the most extensive feedback system. There, formal feedback is given on a weekly basis. All of the reference cases had feedback as an important part of performance appraisals.

5.4.3 THE IMPORTANCE OF RECOGNITION

Creating a culture wherein appreciation and recognition are important parts has shown to be an important feature in the organizations we have been collaborating with during the process of completing this study. BBB even claim it to be the most important part of their reward system.

_We try to show our employees appreciation and to recognize their achievements to keep them motivated, but also to show what behavior we value_ (HR Manager BBB. Interview 2013-03-08)

Every week, BBB draws attention to one group, which has performed a successful project. This highlights the desired behavior and performance and aim at enhancing motivation of the consultants involved in the delivery of the project as they receive public recognition.

The importance of creating a warm and caring working environment that truly wants their employees to feel appreciated and at ease has further been emphasized by every case. By celebrating birthdays, throwing Christmas and summer parties as well as conferences abroad the companies strived to create an organization in which the employees feel happy to be a part of.

5.4.4 THE MOST IMPORTANT KPIS

After having had discussions with all of our reference cases it became evident that there are two KPIs that are used more frequently and considered to be more important for this type of organizations. Firstly, AAA heavily stressed the importance of sales within consulting firms.

_As a consultant you come in to an organization, you inspire and work together with the organization in order to create change or raise performance. When the job is done, the_
Another important KPI for consultancy firms, as in all service firms, is client satisfaction as the long term survival of a company depends on its. As consultancy firms are dependent on the ability to attract new clients through the reputation and skills of their workforce, this is a very important factor. Satisfied clients will return to the company for more help and function as an ambassador within their network, which contains possible future clients.

The measure of client satisfaction is by its non-financial nature more complicated to quantify. AAA solved this by having a standardized meeting with the client at the end of every project in order to evaluate the client satisfaction. Another way to measure client satisfaction is the way CCC uses surveys among clients in order to evaluate the performance of the employees. This creates a great opportunity for the organization, as well as the employee, to get feedback on how they can develop and improve. In order to use client satisfaction as a reward criterion, there is a need for a structured way of measurement, which can be found in both AAA and CCC. When asked if it is difficult to get clients to participate in these evaluations of the consultants, AAA said that as long as you ask nicely, that is usually not a problem.

5.4.5 THE CHARACTHER OF CONSULTING

All of our reference cases indicated that being a consultant is not merely a job but a way of life and that it often goes hand in hand with a certain personality. At AAA, employees are described as someone who is driven by the strive of bold goals.

We hire people that like to dig into work, that won't settle for anything but excellence, that are good at working in teams, that are ambitious and goal oriented (HR Manager BBB. Interview 2013-03-08)

We don't pay our employees to be motivated, but it is considered a part of the employment. If you work here, we expect you to be motivated (Founder AAA. Interview 2013-03-07)

The joint conclusion of the special characteristics of consultants drawn from the reference cases is that consultants are driven by the passion for their job; that they like challenging work and to tackle new situations. Namely, that they are motivated themselves. Instead, it is the job of the company to create structures that spur creativity and maintain motivation. The passion and
ambition can thus play an important role in terms of identifying what motivates the employees to work towards the goals of the organization.

*I have gotten job offers elsewhere, but I enjoy the freedom that being a consultant brings. I wouldn’t like to work in one place and see the same people every day. I like to work in different places, meeting new people; that I only have to stay in the office a day a week* (Consultant AAA. Interview 2013-03-07)

This reflects the desire to further develop and to be autonomous in ones work, which the founder of AAA pointed out to be the main reason why complex, inflexible management control systems are not desired, and would not work well. Assumingly, the same goes for the reward system, which would then benefit from being simple and flexible to allow for continued autonomy and personal development of the consultants.
6 ANALYSIS & MODEL CREATION

This chapter presents a model created, which is based on the insights gained from research and the empirical data collection. The chapter starts by presenting the discussion model, which contains two models that are thereafter presented.

6.1 DISCUSSION MODEL FOR REWARD SYSTEMS IN SMALL PSFS

![Diagram of Discussion Model](image)

Figure 6.1 Discussion Model for Reward Systems in Small PSFs.

The goal of the study is to create a model that can serve as a foundation for discussions of how to design and use reward systems in small PSFs. A discussion model will be presented, which contains two different models, a process model and a structural model. The reference cases provided us with important insights and best practices. In the creation of the model, these insights combined with theoretical findings created a solid foundation in order for us to determine which aspects that are especially important to consider for this type of organizations.

In the process of this study it has become evident that the design and usage of reward systems should be viewed as a process, which is consistent with scholars’ views of how to implement a control tool connected to strategy (Anthony & Govindarajan 2007). Therefore, the first part consists of a process model, which aims to describe what management in small PSFs needs to consider after a decision of creating a new system has been made, but before the actual design of a reward system. The second part consists of a structural model, which should be applied in the design step of the process model.
6.1.1 PROCESS MODEL

**EVALUATION & MAPPING**

Arvidsson (2008) stresses the importance of considering the current situation of the organization prior to designing a reward system, as it otherwise would risk enhancing undesired behavior. Every organization has its own history, culture and ways of doing business. Often, old reward systems are not fully reversible and therefore, this has to be considered in the design of a new system. Evaluation and mapping involves investigating the existing management control systems, to estimate the available resources to be spent, and to investigate the preferences of employees to account for in a new reward system. As a reward system is part of the greater management control package (Samuelsson 2008) it is important to investigate what other control tools that are used, which has to be compatible with the design of the reward system. This corresponds to the contingency approach which highlights the need to adapt the control tools used to the specific situation of an organization (Anthony & Govindarajan 2007).

Scholars’ stress that preferences differ among individuals (Hein 2012; Wolvén 2002; Arvidsson 2008) which was confirmed during the interviews with the consultants involved in this project. Due to the differences we draw the conclusion that it is of high importance to include all organizational members in the process of evaluating and mapping. This correspond to what Thompson and Streickland (1992 in Arvidsson 2005) state about including everyone in the design of reward systems. This argument is strengthened by the fact that employees are considered to be a vital part of every PSF (Alvesson 1993) and that small firms are heavily dependent on each of their employees (Bacon et al. 1998). According to an expert in the field, management often overestimates how well they know the current situation, stressing that management should be very humble and careful in evaluating what the employees’ opinions are; otherwise they risk getting a biased view. Therefore, we conclude that the attitudes and preferences of the employees should play an important role in the creation of reward systems and that every single employee of a small PSF should be included in an early stage. We believe
that it can be beneficial to have discussions throughout the firm; however, it is a sensitive topic and that has to be considered.

In terms of this study, we have found that in contrast to literature on PSFs, which builds on the “true” professions, we found that consultants, who are the focus of this study, are driven by goals and achievements. This is considered motivational according to, for example Herzberg (2003). The strong emphasis on achievement of goals is something we have not found in previous research on PSFs, but can be linked to goal theory (Latham & Locke 2006). Our findings indicate that consultants prefer result control, which stands in contrast to the recommendations of Ouchi (1979) who states that professionals should be managed using clan control. Further, commitment was not only high towards the profession but the consultants emphasized the importance of identifying with the firm.

Looking to research of small firms we believe that this is an extremely important step. As small firms tend to be focused on operational tasks (Wong & Aspinwall 2004) it is fair to believe that this is commonly neglected. However, as they have a lack of resources (Stinchcomb 1965 in Cardon & Stevens 2004) and as poorly designed reward systems can come to have adverse effects (Arvidsson 2008) this is a crucial step to undertake after having decided that a new reward system should be designed. Further, as resources have been shown to be scarce, it becomes even more important to investigate how many resources, human and monetary, that can be assigned to the new system; avoiding the risk to create a system the organization simply cannot afford. We believe that arguments such as “we cannot afford it” should not be allowed to crowd out arguments for the usage of reward systems. Further, it is important to assure that the designed system accounts for the different needs of employees. This creates the foundation for the further design.

The actual design should be conducted by the management, after evaluation and mapping has been done. However, attention and interest from management has been proven to be motivational and to result in enhanced productivity (Arvidsson 2008), we conclude that including employees in the process can enhance the acceptance of the reward system.
STRATEGIC DECISIONS

Anthony and Govindarajan (2007) stress the importance of considering the strategy when designing management control systems, in which reward system is considered to be an important part. An important aspect to consider before designing a reward system is the business strategy of the firm. The organizational strategy has to be considered prior to the design, as the reward system otherwise risk having adverse effects (Arvidsson 2008). The strategic decisions will affect the design and requirements put on the reward system. The management therefore has to ask itself what it aims to achieve through the reward system. As there are numerous possible strategies, there are close to infinite possibilities in regard to the design of reward systems. The three reference cases have tackled the challenge of designing a successful reward system in very different ways.

Simply stated, it is important to link the reward system to the strategy in order to create goal congruence, why management should focus on defining the means that will lead to the end. This can be done through identifying core values as CCC and BBB has done. CCC has built its entire reward system on the values of commitment, competence, efficiency and humility. They believe that these values are what will create a competitive and successful firm. We echo the possible positive aspects of incorporating the most important organizational values in the reward system.

LEVEL OF COMPLEXITY

In small firms, the management is often close to operations, which results in a good information flow due to the simple organizational structure (Wong & Aspinwall 2004). The owner is often present and a complex reward system is often not required as the management has a good understanding of the organization (Anthony & Govindarajan 2007).

However, Anthony and Govindarajan (2007) conclude that even if the management of small firms has a good understanding of the business processes, there is a need for a framework for control, in which reward systems plays an important role. This is strengthened by the fact that small companies are heavily dependent on every employee (Bacon et al. 1998) and that the intellectual capital of the employees constitutes the business core in PSFs (Alvesson, 1993; Starbuck 1992).
According to Ouchi (1979) PSFs are difficult to control but preferably controlled by clan control, which strengthens the belief that complex reward systems are not needed to the same extent. The professional character indicates that the need for autonomy within the rewards systems is important, as creativity and problem solving otherwise risk being hampered (Newell et al, 2002). Newell et al, (2002) suggest that control systems, in which reward systems are a part, should function as a supporting structure rather than to strictly control. This perspective emphasizes the importance of not neglecting a structure, due to a risk of hampering creativity. Newell et al. (2002) even argue that good processes and structures can contribute to the capital base of an organization.

The respondents involved in this project have confirmed the importance of autonomy. However, the insights form the reference cases resulted in a multifaceted view, where consultant simultaneously stated that they appreciated being a part of a structured, more complex system with a high degree of management involvement. This was due to the fact that they believed that clearly stated goals together with extensive amounts of feedback were valuable.

Before designing a reward system, it is therefore important to consider what level of complexity that is most suitable. This relates to the discussion concerning the importance of designing reward systems connected to the organizational strategy. More complex structures require greater dedication from the management and employees. AAA is an example of an organization that has chosen a complex structure, where the reward system is an active part of the overall control package. AAA clearly stated that although their system is complex and demanding, they consider the reward system to play an important part of their organizational success.
DESIGN
The final step of this process presents the specific aspects to consider regarding the actual design of a reward system. This step consists of many different factors to consider which is why the next section of this paper will present a structural model highlighting the most important aspects to consider.

The structural model has been inspired by Arvidsson’s (2004:139) model “Four dimensions of reward systems”. Since the specific implications for small PSFs differ from the general research on reward systems, our model is modified to consider these conditions. As our structural model focus on the actual design of a reward system, the dimension concerning “Purpose of Rewards” is left out.

6.1.2 STRUCTURAL MODEL

![Structural Model Diagram]

CRITERIONS FOR REWARDS

- Suitable KPI:s
- Individual Performance
- Organizational Performance
- Controllability & Reliability

FORMS OF REWARDS

- High Level of Base Pay
- Profit Sharing
- Recognition

COMMUNICATION & FEEDBACK

- Perceived Fairness
- Communication
- Feedback & Coaching
- Continuous Process

Figure 6.3 Structural Model.

CRITERIONS FOR REWARDS

SUITABLE KPIs
According to Catasús et al. (2008) organizations should use a limited number of metrics that are understandable and possible to measure. In PSFs, client satisfaction is important for the long-term survival of the firm (Normann 2000) and thereby important to account for in all PSFs. It
can be measured through surveys or interviews with clients (Catasús et al. 2008). AAA and CCC both use client satisfaction in their assessment of individual performance. AAA interviews their client after a project is finished whilst CCC asks their clients to grade the performance through a survey. As client interaction is intense in PSFs (Alvesson 2004; Anthony & Govindaraj 2007) they are an important source of information when assessing performance. However, it is important to consider that the assessments are based on perceptions rather than objective measures, which is why they need to be complemented by other forms of criterions, which has not least been portrayed by our reference cases.

Our empirical evidence points to the impact of the financial constraint in these types of organizations, why positive cash flow is essential for the immediate survival. Therefore, we conclude that sales is an important metric to consider for small PSFs. Further, all reference cases use sales as criterion for reward. The focus on sales, instead of profitability, is one area where studied research and our empirical evidence differ. According to AAA, the profitability of a certain project within the consulting industry is a result of numerous factors, beyond the control of an individual employee. AAA further stressed that even if a project is not profitable today, it may result in long-term benefits. These benefits consist of possible future projects and recommendations to potential clients. Instead of focusing on profitability, projects are chosen with consideration. If a project risks to require extensive resources, they raise the price of the services. Cautiously choosing projects in a strategic manner could according to us be a possible way of handling the profitability aspect, and be considered an indirect way of measuring profitability.

In conclusion, it can be argued that sales and client satisfaction are two important KPIs for small PSFs. However, it is up to every organization to identify the specific KPIs that corresponds to the strategic decisions made earlier in the process. Our multiple case study has allowed us to conclude that these are the two KPIs with the strongest connection to the performance of the employees.

INDIVIDUAL PERFORMANCE
Merchant and Van der Stede (2007) states that rewards based solely on individual performance, risk resulting in utilization-maximizing behavior and short termism. They further argue that,
individual goals can have motivational effects as they are closely linked to the specific performance of an employee. AAA and BBB use individual performance management, including short-term and long-term goals.

To maintain motivation we therefore conclude that small PSFs should use individual criterions as one basis for rewards, designed carefully in order to avoid unwanted side effects. Due to our empirical data we further recommend to carefully consider the usage and choice of individual reward criterion. In the reference cases, it became evident that if designed cautiously, the individual criterions can be used as a motivating tool, as well as a part of the individual development and training.

ORGANIZATIONAL PERFORMANCE

Due to the small size of the firms investigated, we equate research conducted on group level to organizational level. Organizational performance has a weaker connection to the performance of an individual, since it often is affected by external factors. Scholars argue that it is questionable if organizational results should serve as a criterion on which rewards are based (Arvidsson 2008). Other scholars state that organizational performance is the result of the joint effort of all organizational members, which is why measures on an organizational level can be believed to enhance collaborations. Allowing some part of the criterions to be based on organizational performance, mutual monitoring between employees may take place (Merchant & Van der Stede 2007), which lessens the need for other forms of control.

Our empirical data strengthens this belief, as the reference cases argue that it is often impossible to trace one individual’s specific performance in a project. Further they confirm the dependence of the competence of their employees, why knowledge sharing always needs to be encouraged. We therefore argue that small PSFs should base parts of their rewards on the organizational performance, which serves these purposes.

CONTROLLABILITY AND RELIABILITY

It is important to choose metrics that the firm can measure accurately, and which outcome is controllable by the employee (Catasús et al. 2008; Arvidsson 2008). The management of small firms tends to be occupied with day-to-day operations, often lacking the skills of managerial topics (Wong & Aspinwall 2004), which emphasizes the need for simple metrics with a high level
of controllability. The control and measurement aspect of a reward system is further complicated in PSFs as the outcome of services is difficult to measure (Ouchi 1979).

One difficulty is illustrated by AAA who points to the the importance of considering the subjectivity of the clients’ assessments.

_Sometimes clients give us all the credit for a positive change, even if we do not deserve it, and sometimes it is the other way around._ (Consultant AAA. 2013-03-07)

Subjectivity of assessments needs to be considered internally as well as externally. Despite structures and frameworks, the degree of subjectivity in terms of the social interaction between employees and management exists. CCC handles this by using a numeric scale when assessing performance internally and externally. CCC always has more than one manager involved when determining the performance of an employee. AAA and BBB handled the controllability issue with the mentioned plans and protocols, where targets are constantly determined, revised and evaluated. The two companies also share a structured way of conducting evaluation of client satisfaction, a necessity in order to use this criterion.

Hence, the management of this type of organizations needs to carefully consider which criterions to use, based on what resources that are available in order to measure, trace and evaluate the performance. We therefore recommend small PSFs to make sure to find a good way to measure criterions, preferably on both individual and organizational level.

**FORMS OF REWARDS**

When choosing what forms of rewards to use it is, as previously mentioned, important to consider the firm specific context and strategy. This links back to the step wherein strategy should be considered in the process of designing a reward system.

**HIGH LEVEL OF BASE PAY**

According to Newell et al (2002) professionals are often compensated with a relatively high pay. Pay can be seen as a hygiene factor, which is why management thereof is crucial as the lack of a satisfactory pay level can result in dissatisfaction (Herzberg 2003). Level of pay plays an important role for some individuals regarding the social identification (Larsen et al. 2005 in
Hein 2012). The importance of pay varies between the individual interviewed, which is consistent with research conducted on preferences (Hein 2012). Further, financial compensation is argued to be one of the most important topics in terms of rewards for small firms (Graham et al. 2002 in Cardon & Stevens 2004).

Pay amongst the respondents is mainly considered a hygiene factor (Herzberg 2003), pay is itself not seen as an important motivational tool. This corresponds to the belief that highly complex and challenging tasks, one characteristic of PSFs (Alvesson 2004), reduce the need for extrinsic motivation, which include pay (Gagné & Deci 2005).

The concept of Performance Management (Armstrong & Baron 2004), argues that variable pay can work as an important mean to enhanced performance. The usage of PRP is popular in the reference cases, where individual performance reviews is used during annual pay revisions to decide the future pay level. Some scholars argue that a balance between variable and static pay is recommended (Merchant & Van der Stede 2007). When performance is a factor considered during the annual pay revisions, it is important to make sure that the firm does not reward short term performance, but rather long-term development, which CCC emphasized. Further, CCC points to the importance of seniority being part of pay levels, which was not mentioned by the other respondents. Yet, as pay is not reversible, we identify that seniority is, to some extent, part of all levels of pay in the reference cases.

Aggregated, this leads us to conclude that the usage of a high base pay, which is revised annually, partly reflecting the performance, is a preferred way to handle these matters in small PSFs. This is based on the empirical data, which indicates that variable pay is not seen as motivational but rather hygiene. Our recommendation does not differ radically from traditional pay appraisals, where an annual pay rise is discussed behind closed doors between manager and employee. However, by structuring this already existing appraisal, we believe a further sense of fairness can be created as communication is enhanced and the subjectivity may be diminished.

A relatively high level of base pay creates a security for the professional to conduct his or her work in the best way possible and allow for social identification with others within the profession. Many professionals have expert knowledge and experience within their niche, which makes them attractive on the labor market. Therefore, we believe that a satisfactory level of base pay can function as a retention tool, although not the most important one according to our
empirical findings. In terms of management, it is important to consider the fact that pay is not reversible, and therefore the firm needs to consider its financial capability and scope when determining pay levels.

PROFIT SHARING
Knowledge in PSFs is generally created in collaboration between employees (Newell et al. 2002), and small firms constitutes a tight group of generalists (Wong & Aspinwall 2004). Further, small firms often lack resources to put into their HR system (Stinchcomb 1965 in Cardon & Stevens 2004), which leads us to conclude that profit sharing can be beneficial in small PSF. Another strength of the profit sharing is that the sum of rewards is relative to the organizational performance. Our empirical findings strengthen this belief, as AAA and CCC both use profit sharing as part of their reward systems.

When choosing a profit sharing model there are certain aspects to consider. Firstly, a decision needs to be made concerning who to include and how to make the split. It can be made through an equal split or by tracing performance. The latter risks enhancing competition between individuals (Berger & Berger 1999). As small firms consists of generalist working closely together (Wong & Aspinwall 2004) and PSFs highly depend on the knowledge created in cooperation between employees (Newell et al. 2002), we argue, in line with Thompson and Strickland (1992 in Arvidsson 2005), that every organizational member should be included in the profit sharing. This conforms to the way profit sharing is handled in CCC and AAA.

AAA’s profit sharing model include all employees, however, the split is not made on an equal basis as in CCC. Instead, AAA has transferred the responsibility of the split to its employees. The owner of a project decides how much of the annual profit, which is linked to a certain project, that should be divided among the participants of a project. Although such a model might enhance motivation to sell projects, we argue that an equal split generally is preferable as this model put extensive demands on the culture of a company, which many firms will have difficulties living up to.

Another aspect to consider is how much of the profits that should be assigned to profit sharing. In the reference cases, different amounts were used. AAA assigns 10 percent of its net profit, whereas CCC assigns 25 percent of their net profit. The level chosen is a strategic decision where every organization will benefit from different levels, largely dependent on the available
resources. However, one might argue that a higher degree of profit split between the employees may enhance the sense of ownership. A profit sharing model does, in an indirect way, creates a total financial reward to the employee that in fact is to some degree variable. This goes in line with the recommendation of Merchant and Van der Stede (2007) that the financial reward should be a mix and static and variable pay.

In conclusion, we argue that profit sharing is suitable for small PSFs. If choosing to use profit sharing as part of the reward system, it is important to consider the communication. If not communicated correctly, there is a risk of discontent if the annual financial reward, the profit sharing, does not fall out as expected (Kaplan & Atkinsson 1998 in Arvidsson 2008).

EMPLOYEE BENEFITS

As benefits can play a part of the attraction of employees (Arvidsson 2008) the use of them is worth considering. The benefits tend to be limited in small firms (Laroche 1989 in Brand & Bax 2002) but they are a hygiene factor and the lack thereof can lead to dissatisfaction (Herzberg 2003). An organization needs to consider the ability to offer employee benefits. The usage of benefits varies across countries. We suggest the use of small-scale packages in line with national standards.

RECOGNITION

Recognition is argued to be highly motivational, which the Hawthorne Effect serves as an example of (Arvidsson 2008). According to Herzberg (2003) recognition is a motivational factor which can be used to align goals by setting examples (Armstrong & Baron 2004). Merchant and Van der Stede (2007) argue that recognition is a highly appropriate form of reward as it fulfills of the criterions for a successful reward; it is valued, understandable, durable and cost-efficient.

The nature of PSFs strengthens the importance of recognition since employees are considered to be the business core (Alvesson 2004), why we conclude that the well-being and motivation of employees should be prioritized. We further argue that as employees are the primary resource in PSFs, investments in them can be seen as a reinvestments in the business. In a small firm, the dependence connected to each employee (Brand & Bax 2002), strengthens our belief that keeping the employees satisfied is important.
The reference cases participating in this study all provide good examples of organizations working actively with non-financial rewards. We believe that extensive use of recognition is in accordance with Ouchi’s (1979) recommendation on how to control professionals. Further, recognition in its simpler forms is an inexpensive mean of rewarding ones employees, which is of essence as small firms often lack financial resources (Stichcomb 1965 in Cardon & Stevens 2004).

Internal competition needs to be avoided, as PSFs are dependent on knowledge sharing (Løwendahl et al. 2001) and due to the smallness of these firms, where employees work close together (Wong & Aspinwall 2004), we believe that it is important to avoid competition among employees on a daily basis. We thereby recommend that informal recognition, where neither winners nor losers are created (Armstrong & Baron 2004), should be used. We believe that this can enhance cooperation amongst employees. This is successfully done in CCC where the celebrations of good performance include all employees.

Formal recognition can be used to show the good performance of individual members in the organization. At times, as in BBB, it seems as though it can be wise to use recognition as a mean of creating goal congruence and to give feedback. However, this might be of limited importance, once again due to the smallness. Therefore, we recommend extensive use of both formal and informal recognition. Except the obvious motivational benefits connected to recognition, we argue that an extensive usage of these types of rewards is especially beneficial for small PSFs.

In the reference cases, the employees work mostly outside the office, which increase the importance of having a structure for formal recognition, as the spontaneous recognition in an office environment for obvious reasons cannot occur as often as in traditional organizations. Further, the employees highlighted that the great atmosphere played an important part in their choice to stay with the specific organization. We therefore concluded that recognition has a vital role in creating a work environment that is perceived as attractive for both existing and potential employees.
COMMUNICATION & FEEDBACK

PERCEIVED FAIRNESS
In order for any reward system to be successful it seems as though it needs to be appreciated and perceived as fair by the employees. Perceived fairness depends on the subjective feelings of the employee (Adams 1965 in Arvidsson 2008), which is why managers should focus on listening to their employees and thoroughly motivate the assessments they make in regard to the reward system. The specific characteristics of small PSFs, discussed earlier, leads us to believe that fairness is an important aspect to consider.

As mentioned earlier, Thompson and Strickland (1992 in Arvidsson 2005) suggest that all employees should be included in successful reward systems. This is partly relevant as organizational members otherwise risk experiencing a sense of unfairness. Following the suggestions by Leventhal (1980) management should, among other things, focus on creating a consistent and correct system. This is of high importance in small firms as employees work close to one another (Wong & Aspinwall 2004), with easy access to information about the reward system. An open dialogue concerning the reward system would therefore be preferable, in order to avoid a feeling of unfairness among employees.

Part of creating a sense of fairness is good communication and the feedback on performance, which previous research point out to be a prerequisite, in order to get a positive view of the reward system. Further, involvement often increases the likelihood that employees are positive towards the reward system, as they are part of designing it (Otley 1977 in Arvidsson 2008).

COMMUNICATION
Communication has shown to be an important topic in relation to successful reward systems in research (Arvidsson 2008; Bergstrand 2007). Employees must know what is expected and required of them in order to receive rewards (Svensson & Wilhelmsson 1988). Our analysis strengthened what was already emphasized in the literature about reward systems. In short, it seems, as communication through goal-setting and prompt feedback is a source of increased motivation for the professionals working at the companies included in our study.

It is important that the communication reflects the strategic decisions and the core value of the firm as communication within the firm has been argued to reflect in interactions with clients (Normann 2000). If the goals are not communicated in a good way, the entire reward system
risks working counter-intuitively (Arvidsson 2008). It is further important for the firm to create a good atmosphere within the firm, making sure the communication corresponds with what the firm wants to portrait to their clients (Schneider 1980 in Normann 2000). AAA stressed that organizational goals needs to be broken down into personal, short term goals in order to be understandable for the employees. Therefore, we argue that small PSFs should evaluate their routines for internal communication and aim to find a good way of enhancing communication on every level of the company. Even though, small firms due to the size tend to have a good internal communication (Wong & Aspinwall 2004), this is important to consider and evaluate.

**FEEDBACK & COACHING**

As PSFs are dependent on the compounded knowledge of their employees (Alvesson 1993; Starbuck 1992), we draw the conclusion that engaging employees in the feedback process can be believed to benefit the knowledge sharing, which is crucial for a PSF's survival and competitiveness (Løwendahl et al. 2001).

*If I, as an employee, don't know whether I have done a good job, it is difficult to feel satisfaction with what I have achieved. This is something companies often fail in regards to.* (Expert in Performance Management. Personal Contact 2013-04-20)

As the very nature of the services provided by PSFs is to solve complex, unique problems, (Alvesson 2004) feedback can play an important role in order to secure the quality of delivery. As seen in reference cases AAA and CCC, this can be dealt with by working in teams. But, to assure, or rather benefit, that feedback between colleagues happens, an open-minded climate seems to be beneficial. Hence, management needs to work on creating and supporting an open-minded flexible culture, where recognition schemes can lead the way. Further, an insight from the reference cases were that feedback can actually be a mean of creating goal congruence, as it creates a feeling of the entire organization working towards a common goal, helping each other to get there.

Feedback is further one of the criterions for increased performance according to the theory of Hackman and Oldham (1976). As performance management is one of the reasons to implement reward systems this should be considered.
CONTINUOUS PROCESS
A step towards communicating goals efficiently and giving feedback to achieve continuous knowledge sharing is to use the logic of the performance management cycle (Armstrong & Baron 2004). Doing so can strengthen the structural capital of the firm, in which processes and structures are considered a resource (Newell et al. 2002). This is additionally important in small PSFs due to the smallness, and limited resources (Stinchcomb 1965 in Cardon & Stevens 2004).

The inherent resistance towards bureaucracy among PSFs (Newell et al. 2002) strengthens the need for creating a simplistic model in these types of organizations.

We believe that a modified version of the traditional performance management cycle (Armstrong & Baron 2004:13) can serve as an example of a way to deal with communication and feedback in a structured manner. We believe that this, modified model, which focus less on control, and more on goal formulation and feedback is more suitable for this specific type of organization. A conclusion drawn from the empirical evidence, is that a structure for communication and feedback can lead the way for the more informal ways of communicating and giving feedback.

We suggest a continuous approach where goals are negotiated between the manager and the employee at the beginning of the year, followed up halfway through the year under formal circumstances and reviewed year-end, once again in dialogue between the manager and the employee.
A structured communication cycle where communication and feedback is handled in a formal way has proven to be successful and arguments for a clear structure have been presented.

Most employees appreciate individual dialogues with their closest manager, with a more formal approach than just talking over a cup of coffee. A lot of managers are preoccupied with day-to-day operations, in small firms especially ... arguing that we already know each other so well. (Expert in Performance Management. Personal Contact 2013-04-20)

Alongside this rather simple structure we suggest that continuous feedback and coaching are done informally. However, this is the simplest form and can be modified to fit the organizational needs. Preferences of management should be influential when deciding what way to go, relating back to the decision of level of complexity.
7 APPLICATION OF MODEL

This chapter presents the application of the model to XYZ. The specific situation of XYZ is discussed.

In order to continue the discussion concerning reward systems in small PSFs, we will now proceed to discuss the specific situation of XYZ and how they can continue their work with finding a suitable reward system. It is important to yet again stress that this paper do not aim at presenting a complete solution for XYZ.

7.1 EVALUATION AND MAPPING

XYZ have worked extensively with evaluating and mapping their current situation, where an important step has been to identify the need of handling these matters and initiate change. The employees have been part of the internal discussions, starting of with the meeting held in 2012 where consensus on how to handle the matter was not reached. This paper can be seen as a part of the evaluation and mapping process at XYZ. Despite the sensitive character of this subject, the main case has invited two external researchers and allocated employee time in order for every employee to be interviewed. The result of the interviews was confidential and has not been shared with the management. However, we argue that the interviews have served a purpose of raising the awareness concerning the topic, which was brought to the table for discussions on numerous occasions throughout 2012 and 2013. The process of participating in this thesis can be seen as an indicator of how the management prioritizes this issue and works actively to find a good solution concerning their expressed problem.

The current situation of XYZ is heavily affected by the history of the organization. A profit sharing model was introduced in 2012, but never came to be due to the lack of profit. The financial constraint on XYZ is an important factor to consider. As of today, the management measures sales by a tracker that accounts for the monthly performance of the organization.

Communication and feedback are areas of management that XYZ handles in a very informal way, similar to many other small firms. XYZ emphasizes the value of everyone working within the organization being “grown-ups”, which therefor excludes the need to have formal evaluation meetings.

Preferences among employees vary and the informal, “grown up” nature is very appreciated by the respondents. There seems to be an uncertainty of what the synthetic partnership included
and what can be expected of it. As of today, 50 percent of the net profit is distributed through profit sharing. This is a higher percentage compared to the reference cases studied, which is most likely explained by the owner’s preferences. The high percentage of profit sharing creates a situation in which the employees’ total financial compensation is highly variable. This became evident in 2012, where external factors led to a situation with no profits to share amongst the employees. Since this was the first year of profit sharing, and the employees were aware of the specific situation, it was justified. However, the situation resulted in a heavy pressure on the management to not end up in a similar situation at the end of 2013.

The history of XYZ, with several large organizational changes in a short period of time, has to be considered when discussing the future situation of XYZ. This is reflected in pay levels, titles and the culture – all aspects that will be discussed further in this chapter.

One of the employees at XYZ explained the importance of the passion and the identification, stating that since she was late in her career her choice of employer was made consciously. It seems, as though the workplace is actively sought out by the employees, minimizing the need to focus on the reward system’s role in attraction and recruitment of employees. The Founder of XYZ states that all current employees have applied to jobs that did not prior exist at XYZ.

XYZ’s participation in this study is part of their evaluation and mapping. As the process of finding a solution to this problem is a work in progress, XYZ will need to further evaluate and map their current situation. In terms of this application, we will use the information retrieved as the foundation for the conclusions drawn.

7.2 STRATEGIC DECISIONS

The company has a long-term strategy of growth, however, the main focus as of today is to get settled in the new organizational structure and business model. It is, however, important for XYZ, as for every organization, to evaluate the long-term effects of the reward system designed.

Midway through the project a halfway document was shared with XYZ (Appendix 2), presenting two radically different ways to handle the profit sharing. The management contributed with feedback, and even if this could not be seen as a strategic decision made, it provided us with a strong indication of the company’s desired path of action.
In short, the first alternative discussed the individual tracking of performance by using goal documents and the second alternative presented a model where the owner of a project allocated the profit as they see fit. The management argued that the different alternatives both had its obvious benefits and weaknesses. The first alternative was perceived as traditional and close to what they had considered themselves. The second alternative was found innovative and bold, however, they were concerned with the risk of biased behavior among the employees.

Furthermore, one of the main challenges I’ve been working with the team is to get to establish a culture of teamwork where it doesn’t matter if I made the sale and someone else will deliver, as long as the business is healthy (Managing Partner. Interview 2013-02-28)

This feedback has been used as a support in the upcoming application. It is important to stress that the halfway document solely discussed the profit sharing, which is only one aspect of a reward system. The continuous e-mail correspondence with XYZ has contributed with feedback on other aspects of the reward system, which has been valuable in the application.

### 7.3 LEVEL OF COMPLEXITY

During the case study of XYZ, it became evident that the employees as well as the management are very reluctant to bureaucratic structures, which demands extensive administrative resources. The autonomy of the profession is highly appreciated. Many of the employees have actively sought out XYZ as an employer, attracted by, not only the job itself but also by the flat organization and informal structure. Some of the employees have previously been working in large corporations with high levels of bureaucracy, which has resulted in an aversion towards it.

However, a system that does not require the involvement of management or some level of bureaucracy, risks to fail and result in a toothless reward system. The challenge for XYZ is therefore to design a simplistic model without being too complex, yet still satisfying their need of a suitable reward system.
7.4 DESIGN
The design part of the process, discussed from the XYZ perspective will be presented below, using the structural model.

CRITERIONS FOR REWARDS
Since XYZ heavily depends on the synergies created between employees, and the individual performance in a certain project is difficult to track and measure, organizational criterions could be beneficial. Therefore, we argue that some of the rewards given should be based on organizational performance.

Since the employees of XYZ have very different attributes and tasks, it would not be fair to measure the employees with only one type of metric. In terms of finding a suitable way to measure individual performance, the insights gained from the reference cases illustrated the possibility to use simplistic goal documents in order to track, support and evaluate individual performance.

A goal document can function as a way for XYZ to individualize the reward criterions for different employees. A simplistic goal document can be as support during the annual pay discussion, where a high level of attainment of goals is rewarded. When choosing which metrics to use in an individual goal document, we recommend using only a few KPIs connected to the current strategy. The organizational goals decided can be broken down to individual level. The individual goals should be the result of a negotiation between the specific employee and the management. This poses a challenge, where available resources and the controllability of specific metrics need to be considered.

As sales is crucial for the survival of XYZ, and currently measured, this should continue to serve as an important criterion. The reluctance towards assigning extensive resources to measurements and tracking could be solved by firstly by focusing on finding a way to retrieve client feedback. However, in a long-term perspective, XYZ can need to use additional metrics as the basis for rewards, such as contribution to the development of the business model.

FORMS OF REWARDS
XYZ's current rewards consist of a monthly pay combined with an annual profit sharing. Since the synergies between the individuals within XYZ are so evident, we believe that the profit
sharing model is a good structure for XYZ. Using a profit sharing model has been an outspoken request from the management. As the existence of a monthly pay is not questionable, we will elaborate on possibilities on how the annual pay review can be supported with a goal document. We do not identify any need for financial rewards beyond the aforementioned.

XYZ provides a good example of the difficulty in regards of using pay as a financial reward. The current pay levels are the result of a mix of market value, historical facts and seniority. Since pay is a non-reversible reward (Merchant and Van der Stede 2007) this creates some implications for the organization. Since this study concludes the preferable aspects of offering employees in small PSFs a relatively high base pay we believe that this is applicable on XYZ. Therefore, we only recommend a slight formalization of the annual pay reviews by including a simplistic goal document. It is important to stress that this will not radically change the way the determining of pay is made today, but more function as a supportive tool which can enhance sense of fairness due to increased communication and affect the level of subjectivity connected to the annual pay review.

A challenge connected to making the annual pay review partly based on individual performance is the mentioned non-reversible nature of pay. Further, the long-term effect of performance needs to be considered, in order to avoid a reward spiral. Making a part of the annual pay review based on a goal document does not seek to radically raise the employees’ salaries, which would be difficult due to the financial situation, but rather to create a structure for how the reviews are conducted.

In terms of the profit split, we argue that an equal split might be beneficial at XYZ, since this diminish the risk of internal competition and undesirable behavior. An equal split risks being perceived as unfair by certain organizational members if they feel that their contribution to the organizational result is larger than others. This is a challenge that needs to be tackled.

Other alternatives for XYZ in term conducting the profit split is by tracking individual performance or use a model similar to AAA, where the owner of a project divide the profit. However, it is important to keep in mind that both of these alternatives will create extensive demands on both management involvement and the organizational culture.

In terms of non-financial rewards XYZ have close to non-existing rewards. Since the preferences concerning employee benefits has proven to differ between the employees, it might be an
important topic to have an open dialogue about before determining individual rewards. A lower pay combined with employee benefit may be preferred by some compared to only receiving financial rewards. Other non-financial rewards that are highly relevant for XYZ are the assigning of certain projects and responsibilities to employees. Since this is already a part of the management, we will not elaborate on this.

We believe that recognition is an area in which XYZ could experience great benefits with simple means. By extending the formal recognition slightly, the already informal recognition can be enhanced and XYZ may experience the benefits described previously in this study.

COMMUNICATION & FEEDBACK

We argue that communication and feedback are areas in which XYZ has a possibility to improve, by using simple, cheap means that do not interfere with the desired autonomy of the consultants.

A communication and feedback cycle, in which the goal document is an important part, can enhance motivation. By diminishing the uncertainty of individual performance, team performance and overall organizational performance the employees can experience a more satisfying working life. We recommend that goals are clearly formulated, preferable in interaction with the employee, so that the employee knows exactly what is expected, yet feeling that the goals set are controllable. Further, an interactive process of formulating and setting individual goals can benefit the perceptions of how fair the reward system is.

As XYZ has limited resources, we recommend a simple structure of handling communication and feedback. All employees should schedule private meetings with the management twice a year, where feedback and communication take place. In between the two meetings we emphasize the importance of continuously give support and feedback to the employees and to facilitate coaching between them. The individual meetings with the management will also serve as a confirmation of the goals put up during time assigned especially for this matter. The time assigned to goal setting can be done in different ways, but a group discussion might be beneficial due to the high level of synergies in XYZ. Since there already is an existing structure with weekly meetings as well as monthly partner meetings, the goal setting can be incorporated in this structure.
8 RESULTS & DISCUSSION

This chapter presents the findings of this study. The result of the creation of the model and the application to XYZ is presented. Thereafter, a discussion concerning the challenges connected to the design and usage of reward systems in this specific type of organization follows. The chapter is finished off by a discussion concerning the general relevance of this study and suggestions for future research.

Reward systems’ importance within the organizational control package has gained increased attention in recent years and this study confirms that managing rewards is not, and should not, be considered an isolated HR issue, but an important factor to consider in the managerial and strategic work. In the process of conducting this study, it has become evident that small PSFs have a demand for new ways of handling reward systems, since traditional reward systems are not applicable to these types of organizations. Empirical evidence points to the fact that reward systems are a complex and sensitive area within management control. This paper contributes to the research by identifying and discussing the specific challenges of reward systems facing small PSFs.

This paper has through a multiple case study identified and provided suggestions on how to tackle the challenges facing small PSFs when designing and using reward systems. This study contributes to the general knowledge on management concerning reward systems, small firms and PSFs by identifying and contributing with insight to an area of research that has previously not been a topic for research.

The first part of our aim was to create a model that could serve as a foundation for discussions of how to design and use reward systems in small professional service firms. The second part of the aim was to apply the model on XYZ and identify the specific challenges connected to reward systems in these types of organizations.

There are many important findings of this study, but the one of the most important is that small PSFs should not underestimate the importance of putting resources into the design and usage of a reward system. The research and empirical evidence showed that these topics often are neglected, which further strengthens the belief that there is a lot to gain for managements of small PSFs to actively work with these topics.
The fact that the main case, as well as the reference cases, are consulting firms, which is a contemporary form of PSFs, make this study especially relevant for organizations within the consulting industry which previously have not been researched as much. It is, however, important to point out that the title consulting contains numerous different types of work. The firms participating in this study are all referred to as consultants, even if they evidently work in different fields. We believe that this fact strengthens the relevance of this study, since consulting seems to be more a way of working than a specific industry. Due to the somewhat niched nature of using consulting companies, as cases there could be difficulties in strictly applying the model to other forms of PSFs. However, we argue that the model is applicable on all types of PSFs, as long as keeping the industry specific implications in mind.

### 8.1 MODEL CREATION

The first part of our aim has resulted in a discussion model;

![Figure 8.1 Discussion Model for Reward Systems in Small PSFs.](image)

This model serves two different purposes, and should be used as a foundation for further discussions of small PSFs. First, it highlights the important steps that should be taken by the management before launching a design project. Since both theory and empirical evidence points to the importance of viewing the creation of a successful reward system as a process the process part of the model can serve as a guide before the actual design of a reward system. The second part of the model is a structural model that in a more direct way highlights the special implications regarding dimensions of the actual reward system. By applying this model, we hope that the management will have a better chance in answering some of the challenging questions associated with reward systems.
The process model highlights the importance of putting efforts into really learning what motivates employees of small PSFs and how to enable the best performance possible. The organization is recommended to delegate extensive resources into getting to know the employees and specific situation of the organization. This may very well be relatively easily conducted at smaller firms, due to the close connection between management and operations. When this is done, valuations and decisions concerning the strategic purpose of a reward system should be conducted. Decisions concerning what level of management involvement and level of complexity that suits the organization also need to be taken.

Finally, when these different aspects have been evaluated and decided, a design phase may commence. Since every organization is unique, the result of this process will differ due to the available resources, the organizational structure and the business strategy.

We found that small PSFs can benefit from actively identifying the most suitable KPIs and link these to their reward system as reward criterions. Further, we found that it is beneficial to reward performance on both individual and organizational level. Rewards given on the basis of individual performance has clear benefits, as it is more closely linked to certain actions and results of a single employee, which is motivational. The importance of the synergies created between employees in the small firms leads us to conclude that rewards can be successfully based on organizational performance. The empirical evidence provided us with the insight that consultants are motivated by clearly formulated goals, which efficiently can be used as a tool for measuring individual performance. The importance of finding a smart way to assure the controllability and reliability of the metrics chosen is stressed, as this can be difficult due to the fact that small firms often lack the resources to conduct complex performance tracking.

In terms of which forms of rewards that have been identified as beneficial in these types of organizations, we have found that organizations can benefit from considering a combination of a relatively high level of base pay, which is partly based on performance, combined with profit sharing. The empirical evidence points to that a high level of base pay creates a sense of security for the employees, and theory state that professionals demand a high level of pay. Empirical findings points to the success of using a relatively high level of base pay compared to a low base pay with a high degree of variable pay would not be beneficial. The complexity of the services delivered, which complicates the outcome measurements strengthen this belief.
In addition to financial rewards, we found an extensive usage of recognition to be beneficial for small PSFs. This is based on the fact that recognition is a cheap and efficient way of motivating employees. By creating a mix of formal and informal recognition, the management can achieve great results without spending too many resources. Paying attention to and recognizing employees on a daily basis, and creating a good atmosphere has even been argued to lead to enhanced productivity. Recognition in form of daily communication might be even more important due to the service character where the internal climate is argued to be reflected in the client interface. Since recognition is a simple and cheap tool to use we believe it to be especially important for small PSFs, due to the lack of financial resources, to provide employees with more expensive rewards. The professional character of these organizations strengthens the importance of recognition, as it is proven to have a much higher degree of success in terms of motivating employees compared to extrinsic rewards.

Finally, goal theory and empirical evidence pointed to the importance of goals and feedback. We concluded that, by using an annual cycle in order to manage these topics the small PSF would have a modestly structured model, which can work as a supportive structure to the informal culture.

8.2 APPLICATION OF DISCUSSION MODEL ON XYZ

The collaboration with XYZ has given this study important insight to the management of a small PSF. The collaboration has been valuable, since it helped us to identify the challenges that face these types of organizations. Many of our findings were confirmed by research conducted in the area, one example of this is the lack of formal HR practices. The fact that the Founder of XYZ have delegated the managing role partly to one of the consultant, acting as the Managing Partner is something that can be considered as a good choice, as research points to the often lack of managerial skills among owners in small firms (Wong & Aspinwall 2004). According to the Founder, his delegation of managerial tasks has to do partly with the fact that he does not live in London and partly to do with his belief that the Managing Partner is better at dealing with these types of questions. However, this should does not mean that the Founder has delegated the operational running of the organization.

Since the collaboration with XYZ has been an ongoing process with constant discussion, we had the opportunity to discuss the latest research, as well as insights gained from reference cases in order to further problematize the topic and distinguish best practice.
In addition, the application of the model to the main case will serve as a contribution to the ongoing process of solving the problematic situation of the main case. In the application of the model to XYZ we recommend the main case to implement a modified version of their existing reward system, with financial rewards consisting of high base pay combined with a profit sharing model. In terms of the monthly pay, we recommend XYZ to formalize the individual performance management with a goal document, similar to those found in the reference cases. This would provide the management with a simple, yet less subjective source of information during the annual pay reviews, as well as functioning as a tool for communication and feedback.

Further we recommend XYZ to use an equal split in terms of the profit sharing. This is motivated by the fact that the management themselves have identified the difficulty in finding a way of tracking performance in projects, strengthened with research confirming this difficulty. By using a simple year-round process for structuring the feedback and performance management, we believe that XYZ have a lot to gain, reducing the strengthening the internal communication. Lastly, we stressed the usage of recognition, both formal and informal, since it is a simple and cheap tool, which has proved to be very successful in our reference cases, and highlighted in research. This is one area that XYZ has not neglected, but has a great possibility to enhance.

These recommendations should be viewed as a contribution to the ongoing debate within XYZ, our aim is that these recommendations, together with the general conclusions drawn in this paper will serve as a helpful tool in their ongoing project on finding a solution to this problem.

8.3 CHALLENGES
Arvidsson (2008) states that reward systems are complex and sensitive matters in all organizations. However, in process of writing this paper, it became evident that these types of organizations face specific challenges connected to the design and usage of reward systems. These challenges are difficult to provide a general answer to, but the identification and discussion concerning them can function as an important contribution to an understanding of how small PSFs can handle these matters.

8.3.1 STRUCTURE VS AUTONOMY
The management of small PSFs has to consider what level of complexity the organization wants its reward system to have. The discussion concerning level of complexity and management
involvement's main challenge is, according to us, finding a suitable balance between structure and autonomy.

Research as well as empirical evidence points to the negative impacts on autonomy and creativity a reward system can have, if it is perceived as bureaucratic. On the other hand, both research and empirical evidence points to the need of a structure for the reward system. The findings point to the importance not to overestimate the culture and its impact on rewards. Our empirical evidence further shows that there is much to gain by creating a structure for rewards, and not simply hope that these issues will solve themselves. If a reward system is designed incorrectly, without consideration to the balance it risks becoming an organizational problem. However, if designed properly, we found that a reward system can create an increased feeling of autonomy, as everyone involved are comfortable with the current situation as well as with what is expected of him or her. The aversion to bureaucracy should not be seen as a reason to avoid creating a structure. Instead, a good structure has proven to be able to serve as a support to the culture and overall working life of the employees.

8.3.2 THE FINANCIAL CONSTRAINT
Due to scarce resources in small PSFs, we have found that inexpensive forms of rewards are even more crucial in small firms than in their larger counterparts. Due to the financial constraint, we believe that it is important to avoid risking the creation of a system, which is too expensive for the organization. Our study concludes that profit sharing and recognition are two rewards that can serve a possible solution to this challenge, since profit sharing results in rewards relative to the overall organizational earnings and recognition is a cost-efficient reward. However, when using a profit sharing model, there are additional challenges to tackle, such as how much of the profit that should go in to the model as well as how the split should be conducted. Building a reward system solely around recognition might be challenging, since the employees in these types of organizations according to empirical findings as well as scholars points to that professionals often demand high levels of pay.

8.3.3 EXPECTATIONS
Research as well as empirical evidence points to the importance of communication and feedback. One topic that we have discovered to be highly important within this area is expectations. If an employee expects a certain reward that for some reason is not given, a
problematic situation arise. One can assume that this will cause bigger harm, compared to if a certain reward never had been brought to the table. It is therefore important to consider which rewards that are suitable and possible to implement before promising employees anything.

This might appear as a less important factor to consider compared to others previously discussed, however we argue that this has a vital importance when an organization uses variable rewards, such as profit sharing. The result of an organization is not always positive, and the employees must be well aware of the possible fluctuation that is an inherent part of profit sharing. In good times, everyone are winners, but in difficult times, everyone must be aware of the fact that the profit sharing might result in low or even non-existing rewards. For example XYZ provided their employees with a financial bonus to make up for the fact a profit did not occur in 2012, in order to avoid discontent.

8.3.4 PREFERENCES OF EMPLOYEES

The individual's opinions tend to be very affected by various personal preferences and variables such as their specific situation in life and risk aversion. The measurements of individuals' opinions have been one of the most challenging aspects of this paper. In accordance with what has been argued in previous research on motivation, we found that the preferences among the respondents differed. Therefore, designing a reward system that appeal to different preferences can be beneficial. Of course, one could argue that reward systems should be entirely customized to each employee, offering different forms of rewards to each member. However, we believe that this would pose a challenge in regard to the complexity and cost of satisfying every need of the employees and in trying to make the reward system perceived as fair. Therefore, we believe that different forms of rewards should be combined. We argue that a system that contains financial rewards, recognition and employee benefits fulfill many of the different criterions of motivation according to a number of motivation theories.

However, the preferences among the respondents did not differ radically. The relatively nuanced picture presented can be explained by the rather homogenous nature of the profession of focus. As previous literature has emphasized, the employees of PSFs have high levels of motivation coming from the work itself and demand autonomy in work. This was confirmed and explained as a passion for what they do, with emphasis put on the joy they experience when working. However, we found that literature on professionals to some extent differ from what was observed in this study. Among the differences between classic professionals and
consultants, commitment was not only high towards the profession but the consultants emphasized the importance of identifying with the firm.

In conclusion we have found that small PSFs have a lot to gain by allocate time and resources into the design and usage of their reward system. If this is done successfully, the organization can, with simple means, enhance the employee motivation – which can contribute to a better business performance in a long-term perspective.

The choice of using consulting firms as the empirical data has contributed with interesting insights, which can contribute to the research within the area and function as a foundation for further research. Consultants are considered to be a contemporary type of professionals, which has been evident in this study were conclusions have been drawn that the motivation differs from what the research conducted on true professionals.

8.4 SUGGESTIONS FOR FUTURE RESEARCH
The choice to merely include small consultancy firms in the reference case study is believed to have had an impact on the findings why future research could aim at investigating different combinations compared to this one. It would be interesting to investigate how a change of focus, from consultancy firms, to another kind of PSF would impact the result of the study.

Further, conducting a similar study on large consultancy firms would offer possibilities to compare practices and recommendations between small and large firms. As ownership structure has been beyond the scope of this study, conducting studies with focus on different ownership structures, in otherwise similar settings, would be interesting as it could guide the management of these firms further. Another interesting factor to look deeper into would be the importance of reward systems in the recruitment and retention aspects in small PSFs.

The study has focused on the theoretical design phase of reward systems, where a model has been created to serve as a foundation for discussion. Although the model has been tested on the main case, it would be interesting to conduct studies that evaluate its importance/relevance after implementation.
REFERENCES


THE CHALLENGES OF DESIGNING AND USING REWARD SYSTEMS IN SMALL PROFFESIONAL SERVICE FIRMS


APPENDIX 1. INTERVIEW STRUCTURE

- Name
- Age
- Nationality
- Title

"Tell us about and yourself, your background and how you ended up here"

CURRENT SITUATION AND STRATEGY
What would you say are the long term strategic goals of XYZ?
Would you say that working at XYZ differs from previous working places?

CURRENT REWARD SYSTEM
How would you describe the current reward system?
What would you say are the main advantages and disadvantages with the current system?

On what basis do you believe rewards should be given?
- Individual level
- Group level
- Corporate level

Do you consider the current system fair? Why/why not?
How transparent is it? – How do you feel about it?
Who is included in the reward system?

TITLES
What role would you say – that the titles play? (Internally and externally)

RECOGNITION AND CULTURE
What do you consider a good work environment for you?
How does this picture correspond to, or differ from, the work climate when in office?
How are social relationships within the organization?
PERSONAL MOTIVATION
What made you interested in working for XYZ?
What motivates you? (Tasks etc.) Why?

TRAINING & DEVELOPMENT
What training have you been offered during the past 18 month?
Has it been satisfactory?

PAY LEVEL
Are you satisfied with the level of pay today? Why/why not?

COMMUNICATION AND FEEDBACK
How are goals communicated and feedback given on performance? How do you feel about it?
How do the evaluation and the feedback of the consultants work today?
APPENDIX 2. HALFWAY DOCUMENT

PROFIT SHARING PROJECT 2013

Creating a reward system is a process that involves many different steps and decisions. Since the XYZ already has decided to use a partnership model with profit sharing, the next step will be to decide which criteria the profit sharing should be based on. Such criterions may be financial or non-financial and should be chosen with the XYZ’s needs and resources in mind.

A model that takes both financial key performance indicators (KPI) as well as more qualitative KPIs into consideration would increase the need of measuring performance. However, the usage of a more structured model might contribute with a more accurate and successful reward system that aligns individual and organizational objectives. Therefore, a decision needs to be made regarding what level of complexity the company finds acceptable.

Two potential alternatives will be presented below. These are very rough examples of different ways of handling matters of profit sharing. They have been developed using previous research and insights from the other participating consulting companies. We want to emphasize that these are merely two rough examples; developments and specifications will be made to fit the XYZ as the process continues.

Alternative 1

Our first suggestion is to create a profit sharing model in which the split is based on the usage of individual performance plans for each employee. The individual performance plan would consist of a simple document illustrating short term, operational goals agreed between the management and the employee. The goals set in the performance plans should be decided in collaboration between the employee and the management and designed and evaluated during private and formalized meetings.

By creating short term goals, reaching over three months or even shorter periods of time, the individual as well as the team will find it easier to set and achieve their goals. The short term goals may be divided into different categories – such as sales, development of the business model, client satisfaction etc. With the performance plans as a foundation, the yearly profit sharing will take the different goals into consideration by splitting the profit between the different categories and then distribute according to the relative performance and attainment of the goals set.
Evaluations of the individual performance of an employee, as well as the overall team success will be made on a regular basis. This performance plan will not solely result in a more formal way of working with communication and feedback but also enhance the role of the Managing Partner and The Founder as management, with a clearly stated role of helping and leading the team.

By using a performance plan to design and track short term goals, the yearly profit sharing will be done using relative performance based on the achievement of the individual performance plans. This creates a possibility for the XYZ to determine which KPIs they find most important and encourage the employees to work towards these by, for example, distribute 60 % of the profit to goals met within sales compared to 40 % to goals met within internal development. These are just rough examples and the final KPIs chosen would need to be tailored for the needs of the XYZ.

This model will demand more management involvement but may enhance motivation within the team as different aspects, rather than solely sales are taken into consideration and as goals are more clearly visible. Since there is an ambition to reward every partner, in regards to what he or she has achieved, this model will contribute with a more formal evaluation on each employee’s’ contribution to the overall performance of the company emphasizing the importance of each employee.

However, by keeping it simplistic, there is no need for this approach to become a complex model. Instead of creating numerous measurements that are difficult to track, this model focuses more on creating an interactive process of working in line with ones’ strategy and rewarding good performance.

**Alternative 2**

Our second suggestion is to create a more basic profit sharing model that does not require as many additional resources in terms of measurement or management involvement. By simply using the sales tracker as a source of information, an annual split will be conducted between the employees. Sales is considered to be a very important KPI, if not the most important, for consulting companies, therefore this alternative wish to enhance the focus on selling.

The split will be made on the basis of the ownership of the client solely. However, the client owner in question will be given the possibility to share his or her, profit with colleagues involved in a project. The share should be based on how much the client...
owner believes that others have contributed to the success of the project. The split may be 50/50, 70/30 or 80/20 – or no split at all. The decision lies in the hands of the owner of the projects, however an open and fair discussion is preferred.

This more basic model has both obvious pros and cons. It puts pressure on the team and the individuals within the team to have a very strong culture in terms of sharing and acknowledge each other. For partners that do not sell as much, but contribute to projects in terms of knowledge and execution, this model will still provide them with rewards. The pressure on the culture may be challenging, but it can also contribute to enhance communication and feedback within the team. This is however an important factor to consider, as trust must be high among all employees. Since it is impossible to track exactly who is doing what in a single project and every project is very different by nature, this model contributes with a subjective and unique evaluation on every project, however, it lie in the hands of the client owner to make the decisions.

**Conclusion**

There are obvious pros and cons of each of the aforementioned approaches to handle the profit sharing. We would be grateful to receive input on the matter in order to get a full view of your reactions to the different alternatives, this would help us to continue our discussion on how to solve these issues at the XYZ and similar companies.

- Which approach do you find beneficial for you? Why?
- Which approach do you believe has the greatest potential to grow with the XYZ? Why?
APPENDIX 3. ARTICLE

HÖGRE LÖN ELLER ÅRLIG KONFERENSRESA?

22 maj 2013

Små professionella tjänsteföretag har unika behov när det kommer till att finna ett lämpligt sätt att belöna och kompensera sina medarbetare. Två forskare ifrån Lunds Universitet har tagit fram en modell som kan fungera som ett stöd och diskussionsunderlag när små professionella tjänsteföretag vill utforma ett bra belöningssystem. Vidare har forskarna identifierat specifika utmaningar som möter just denna typ av företag.

Lön? Bonus? Vinstdelning? Årliga Konferenser utomlands?

Frågorna hoppar sig fort när företagsledare i små företag börjar diskutera vilka belöningar som är mest uppskattade samtidigt som de är effektiva. Stora företag har i många år arbetat aktivt med dessa frågor, värskräddade system har skapats, med olika lyckat resultat. Av många småföretagare är dock just belöningar ett neglicerat och nedprioriterat område. Forskning visar att det finns mycket att vinna på om man som småföretagare faktiskt prioriterar dessa frågor.

Marcus Marcussen på XYZ är ett exempel på en ägare och chef av ett litet konsulföretag som har brottats med dessa frågor under en längre period. Han berättar hur företaget inte kunde komma fram till en lämplig lösning, samtidigt som de inte kände att de hade haft någon tid att lägga på problemet. "Vi har helt enkelt varit upptagna med att driva vårt företag - men nu har vi kommit till en punkt när vi måste hitta en lösning". XYZs problem är inte unikt, utan snarare väldigt talande för just denna typ av företag.

Traditionellt har lönen och andra finansiella belöningar används som "morot" för att få de anställda att möta de mål en organisation har satt upp. Men om man driver ett professionellt tjänsteföretag, inom till exempel konsultbranschen, juridik eller redovisning så visar forskning att traditionella belöningssystem ofta har tvěksam, eller till och med negativ effekt på individers prestationer. Denna typ av organisationer är dessutom ofta små företag, vilket sätter ytterligare press på ledningen att hitta innovativa och nya sätt att belöna sina anställda inom ramen för de resurser man har tillgängliga.

Två civilinomstuderer vid Lunds universitet har genom ett samarbete med Marcus Marcussen och han företag XYZ arbetat fram en modell som ska fungera som stöd för denna typ av organisationer. Flera andra deltagande företag har bidragit med värdefulla insikter, vilket har resulterat i en modell som på ett lätt och pedagogiskt sätt visar hur man kan ta sig in och hantera dessa frågor. Genom att vara väl medveten om de specifika utmaningar och förutsättningar som gäller för just denna typ av företag så kan företagaren på så sätt undvika att
hanma i en situation med ett bristfälligt belöningssystem.

Även de organisationer som lägger mycket energi och resurser på dessa frågor, kommer enligt författarna, stöta på vissa specifika utmaningar som bör hanteras. Dessa utmaningar handlar främst om svårigheten i att hitta en billig, enkel struktur som fortfarande behåller fördelarna som finns med de mer komplexa belöningsmodellerna.

Men enligt författarna så finns det ingen anledning att oroa sig, det finns en hel del enkla åtgärder som ledningen av det lilla professionella tjänsteföretaget kan göra för att hantera belöningar på ett effektivt och smart sätt.

Josefine Andersson

Observera att detta inte är en publicerad artikel utan en del av ett examensarbete vid Lundas Universitets ekonomihögskola.